



NOTICE OF MEETING

Meeting: Audit Committee
Date and Time: Tuesday 25 May 2021, 7.00 pm
Place: Council Chamber
Enquiries to: Committee Services
committeeservices@hart.gov.uk

Members:

Joint Chief Executive

CIVIC OFFICES, HARLINGTON WAY
FLEET, HAMPSHIRE GU51 4AE

AGENDA

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

- 1 At the start of the meeting, the Lead Officer will confirm the Fire Evacuation Procedure.**
- 2 The Lead Officer will announce that this meeting may be recorded and that anyone remaining at the meeting has provided their consent to any such recording. The Chairman will identify which areas are designated filming areas.**

1 ELECTION OF VICE-CHAIRMAN

To elect a Vice-Chairman from among the councillors.

2 MINUTES OF THE PREVIOUS MEETING (Pages 3 - 5)

The Minutes of the meeting held on 23 March 2021 are attached to be confirmed and signed as a correct record.

3 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.

4 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.

5 CHAIRMAN'S ANNOUNCEMENTS

6 INTERNAL AUDIT PROGRESS REPORT Q4 2020/21 (Pages 6 - 20)

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

RECOMMENDATION

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

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

The purpose of this report is to inform the Committee of the Audit Manager's annual audit opinion on the effectiveness of the internal control framework for 2020/21.

RECOMMENDATION

That the Committee accepts the report.

8 EXTERNAL AUDIT PLAN (Pages 29 - 66)

To approve the External Audit Plan for 2020/21.

Date of Publication: Monday, 17 May 2021

AUDIT COMMITTEE

Date and Time: Tuesday 23 March 2021 at 7.00 pm

Place: Council Chamber

Present:

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

In attendance: Axam
Kevin Suter – Ernst & Young

Officers: Carpenter, Chapman and Foy

20 MINUTES OF THE PREVIOUS MEETING

The Minutes of the meeting held on 27 October 2020 were confirmed and signed as a correct record.

21 APOLOGIES FOR ABSENCE

Apologies had been received from Councillor Crookes.

22 DECLARATIONS OF INTEREST

No declarations made.

23 CHAIRMAN'S ANNOUNCEMENTS

No announcements.

24 INTERNAL AUDIT PROGRESS REPORT 2020/21

The Committee was updated on Internal Audit work carried out between November 2020 and March 2021. The Audit Manager updated on current progress in Quarter 4, giving an idea of progress on the revised plan to take into account the Covid response and the impact in-house, the position on high risk issues and any outstanding issues, and where further work was needed.

Members considered:

- External contractors
- Target dates to be updated
- Capita contract – the service would be back in house as from 1 April.
- Plans for the Audit team in view of the retirement of the Audit Manager
- Additional support and mentoring for new staff

Members queried the cost of outside resources, and were reassured that this would be funded by the New Burdens fund from the government.

DECISION

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

25 ACCOUNTING POLICIES

The Committee considered the Accounting Policies to be followed and complied with during the production of the 2020/21 Statement of Accounts.

Members discussed the outsourcing, its effectiveness and evaluation. The S151 Officer confirmed that the procurement regulations and contract standing orders had been recently updated, and the Overview and Scrutiny Committee were tasked with considered KPIs and monitoring the performance of outside contracts. The Audit Manager added from an internal audit perspective the working relationship with Basingstoke was very positive.

DECISION

That the Accounting Policies be approved.

26 INTERNAL AUDIT PLAN 2021/22

Members were asked to approve the Internal Audit Plan for 2021/22.

Members considered the plan, and the need to be flexible, especially in any response to issues around Covid, the work around business grants and ARG grants coming forward.

Members were informed that since the writing of the report joint working with Wokingham had been confirmed.

DECISION

That the Internal Audit Plan 2021/22 be approved.

27 ANNUAL AUDIT LETTER FOR YEAR ENDED 31 MARCH 2020

The Committee considered the 2019/20 Audit letter.

Kevin Suter, E&Y, summarised the findings after relative procedures were concluded. Issues highlighted included that the majority of the final fees had been agreed, and that this year's accounts timetable was being delivered by the deadlines.

Members queried property valuation, and were informed that this was revalued annually in March. It was suggested that, in view of the volatile markets and Covid issues, a review in six months may be needed because the market was so volatile and it was not known how Covid would affect these valuations.

The Chairman and Committee extended their thanks to the E&Y audit team, their support had been appreciated in a difficult year. The hard work of the audit and finance teams was also acknowledged, and good wishes were extended to the Audit Manager for his retirement.

DECISION

That the Annual Audit Letter for year ended 31 March 2020 be noted.

The meeting closed at 7.42 pm

AUDIT COMMITTEE

DATE OF MEETING: 25 MAY 2021

TITLE OF REPORT: INTERNAL AUDIT PROGRESS REPORT Q4 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 March 2021 and May 2021.

2. OFFICER RECOMMENDATION

2.1 That the Internal Audit work completed between March 2021 and May 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	Complete	
Council Tax & Business Rates	Complete	
Cash Management	Complete	
Housing Benefits	In progress	June 2021
Treasury Management	In progress	June 2021
Accounts Payable	Complete	
Main Accounting	Complete	
Waste Contract	Carried forward to 21/22 Plan	

Section 106 Agreements	Complete	
Audit Committee Request on payments	Complete	

4. CONSIDERATIONS

4.1 Planned Work

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

Payroll
Section 106 Agreements

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.

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 there are 2 outstanding high-risk recommendations and 1 high risk recommendations in progress.

Fraud Risk Assessment / Payroll	That recruitment checks in place do not always meet employment law requirements.	Still Outstanding
Fraud Risk Assessment / Payroll	The DBS framework needs to be reviewed	Still Outstanding
IT Controls / Payroll	The starters and leavers processes are not consistently applied. Issues with starters and leavers also has an impact on system access controls for Uniform, Abritas, Chipside and the building.	In progress

4.6 **Fraud**

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

4.7 We have arranged a new Councillor induction training for Cyber Security and Fraud to take place in May 2021

4.8 Results from data supplied for the main National Fraud Initiative has now been received. Any data matches that are identified as a potential fraud will require follow up by either Internal Audit or Capita's Fraud Team. We are awaiting data matches for the Business Grant Schemes phase 1.

4.9 Ongoing NFI checks are now being made for the Main and Discretionary Restart Grant Schemes – real time checks and follow ups are being made prior to grants being awarded.

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. Next scheduled review is May 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	Partial Assurance

	Service Plans, has not yet been actioned in Place and Tech Services	
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 quarterly by leadership team – Due May 2021 Heads of Service have access to risk registers to update accordingly	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
Joanne Innes, Ex 4147 joanne.innes@hart.gov.uk

APPENDICES

Appendix 1 - Payroll

Appendix 2 - Section 106

APPENDIX 1

Area of Review	Payroll
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CONTROL OBJECTIVES

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

Control Objectives	
1	That the integrity of data can be relied upon – adequate and up to date records of officers and they are easily accessible.
2	That there is adequate and trained resource completing the payroll function.
3	Payments to officers, members and external bodies are accurate.
4	Officers and Member expenses are correctly submitted, authorised and paid.
5	Payments made are correctly accounted for.

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

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Control Objective One: That the integrity of data can be relied upon – adequate and up to date records of officers and they are easily accessible.

- There are a number of payroll policies and procedures that are out of date and in need of review to ensure they are up to date and reflect best practice. It is understood that there is an action plan in place to resolve this issue, which is a long standing one.
- There are continuity & back-up protocols in place for the payroll system, managed by Zellis.
- Payroll is one of the priority functions included in the Corporate Business Continuity Plan, however the plan may need to be amended to take into account bringing the function back in-house.
- Assurance of GDPR compliance regarding information retention cannot be provided, this is due to a significant amount of manual data that is still held, albeit in a secure environment.
- There is an establishment list detailing staff employee names grades and reporting lines. It is recognised that financial information on payroll is maintained by Finance.
- Sample testing indicated that there are satisfactory controls in place that ensure employees are removed from the payroll system in a timely manner. However we know that there are weaknesses in this process.

Control Objective Two: That there is appropriate separation of duties for the payroll function.

- Whilst separation of duties is reasonable, we believe that there are risks on resilience for the payroll function. This is because currently there are not enough officers that have been trained on how our payroll is processed.

Control Objective Three: Payments to officers, members and external bodies are accurate.

- Testing indicates that staff salaries are paid in line with salaries outlined in their contracts.
- Testing indicates that there are satisfactory controls in place that ensure the payroll file is accurate and run in a timely manner with appropriate segregation of duties.
- Testing indicates that there are controls in place that generally ensure starters are not paid before they start and that leavers do not receive pay after they leave.
- Concerning starters, testing indicates that there are controls in place that ensure employees have appropriate contracts in place and that they provide proof of right to work in the UK. However, this could not be verified for all of the sample as the personnel records section on SharePoint did not have all the relevant documentation uploaded to it.
- There are still weaknesses in the Starters and Leavers process, it should be noted that this is wider issue and is not solely related to payroll, the lack of a consistent approach to starters means there are also risks relating to access to IT Systems. The Council needs to ensure there is a robust and consistently applied starters and leavers process. Managers also need to be fully aware of the process and take ownership when they are processing either a new starter or leaver.

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Control Objective Four: Officers and Member expenses are correctly submitted, authorised and paid.

- Sample testing indicates that expenses paid are appropriately and in accordance with council policy. Supporting information is held on MyView.

Control Objective Five: Payments made are correctly and accounted for.

- There are controls in place to ensure satisfactory reconciliations are in place regarding the payroll process.
- Improvements in accuracy of payments have been made following the transition of the service from Capita to an in-house service.
- We can provide reasonable assurance that payments are correctly accounted for. Payroll reconciliations to take place each month.

Management Action Plan				
	Risk/Issue	Risk Assessment	Management Response	Responsible Officer
1.	There are policies and procedures are out of date and in need of review.	Medium	An Action Plan has been put in place to update policies and procedures.	Head of Corporate Services
2.	The Corporate Business Continuity Plan should be amended, to take into account bringing the payroll function back in-house.	Low	Business Continuity Plan will be updated.	Audit Manager
3.	The council is likely to not be fully complying with GDPR requirements.	High	A new Data Protection Impact Assessment has been completed. This includes a full risk assessment and action plan to resolve any gaps.	Head of Corporate Services
4.	The Council is currently unable to access the Hampshire Pensions Employer Portal when onsite.	Low	A request will be made to our IT Team to look at the firewall to resolve this.	Head of Corporate Services

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5	Regular refresher training is not in place for both Hart staff involved in the payroll process. Furthermore, Hart service managers are not fully trained on how to record processes such as staff sickness on the HR/Payroll system.	Medium	Will use Management Team as forum for training and updates on processes. Any training needs for the Payroll Team will be addressed by the PDR process.	Head of Corporate Services
6.	Resilience issues for payroll processing needs to be reviewed.	High	Will be partly addressed once Business Grant Schemes are finished. An upgrade to cloud version of Resource link will also help resolve access issues and reliance on VPN.	Head of Corporate Services
7.	Not all documentation concerning employee's employment has been uploaded to the Personnel Records section on SharePoint (for example, evidence of right to work in the UK).	Medium	To be included in the review of Starters and Leavers.	Head of Corporate Services
8.	The Starters and Leavers Framework needs to be fully reviewed to ensure the process is consistently applied.	High	We are planning to use the Corporate Services Helpdesk function to manage starters and leavers process. As an interim The HR Business Partner is reminding managers are if information on starters and leavers is missing.	Head of Corporate Services.
9	The DBS framework needs to be put in place	High	Is currently being reviewed.	Head of Corporate Services

APPENDIX 2

Area of Review	Section 106 Agreements/SANGS
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Control Objectives	
1.	That roles and responsibilities are clearly defined for the management of Section 106 Agreements
2.	That Policies and Procedures are in place and are up to date
3.	That supporting information on Section 106 Agreements are up to date
4.	That income from Section 106 Agreements is collected in a timely manner
5.	That an appropriate audit trail exists for income collected
6.	A clear plan exists to ensure monies are appropriately utilised

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

APPENDIX 2

2. EXECUTIVE SUMMARY & CONCLUSIONS

- 2.1 Section 106, Suitable Alternative Natural Greenspace (SANG) and Strategic Access Management and Monitoring (SAMM) are financial (and non-financial) planning obligations owed to the local authority. These obligations have significant financial value for the authority. HDC has an adopted Local Plan that contains a ten year land supply. Current development is generally in large well-defined areas. There are, therefore, a small number of applications.
- 2.2 Several staff in the planning team did not have up-to-date job descriptions however through discussions, roles and responsibilities were clear between the key staff currently in post. However the lack of formally documented procedures and single points of failure in the process leads to a risk that unavailability of key individuals would result in the process not being effective. There is strong collaboration between individuals in the Planning and Finance departments
- 2.3 The policy framework for S106 is dated and this results in case-by-case negotiations and a lack of transparency for all stakeholders. However, the council's plans to introduce Community Infrastructure Levy (CIL) will mitigate this risk in the medium term. S106 applications and agreements are well controlled. However, the policy framework for indexation is unclear and enhancement/clarification would have significant benefit if the current low inflation environment were to change.
- 2.4 Compliance testing found that records and monitoring of S106 liabilities were robust. Individual agreements and obligations were recorded against the planning application within the Uniform system. However, there was not a central register of S106 obligations with their respective trigger points. There is no formal routine to the monitoring of trigger points but use of local intelligence and ad hoc monitoring enables trigger points to be identified. This combined with the underutilisation of soft intelligence presents the opportunity to enhance financial forecasts.
- 2.5 Grampion liabilities are those applications that only have a SANG/SAMM element. Substantive testing of grampion SANG/SAMM liabilities found that they were accurately calculated, recorded and accounted for. Segregation of duties is maintained via planning officer validation of SANG/SAMM obligations as part of the planning process, plus the monthly reconciliation of payments by finance. These controls mitigate the opportunity that exist for individual collusion with the developer.
- 2.6 Testing of payments showed that money was collected in a timely fashion and that indexation, and interest, where applicable, had been calculated accurately. During testing it was possible to track obligations from agreements through to the utilisation of S106/SANGS. The work completed to create the Infrastructure Funding Statement (IFS) will strengthen this process.
- 2.7 We found that S106 contributions are collected promptly and assigned to appropriate budget codes. SANG/SAMM payments are assigned to a balance

APPENDIX 2

sheet code pending commencement of the development and then released to the appropriate SANG code. Contributions collected on behalf of HCC are identified and paid quarterly. Monthly reconciliations between transactions and obligations ensure that any errors are detected. It is unclear who has responsibility for monitoring whether S106 obligations are spent within five years of the occupation of the final dwelling.

- 2.8 The audit found that the controls over the processing of S106 and SANG/SAMM conditions was substantially complete and generally effective. The audit has identified a number of opportunities to strengthen controls that will improve the control framework further. We have identified 11 Medium concerns and 3 Minor concerns that were discussed at the exit meeting.

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	Finding	Risk	Management Response	Responsible Officer	Target Date
1	A number of job descriptions were not available at the time of the audit. We were informed that roles and responsibilities were not fully documented there was however a good understanding of respective roles among the key members of the team.	Medium	Head of Service will document roles and responsibilities for officers dealing with S106 Agreements.	Head of Place	November 21
2	<p>The “Planning Obligations (106 Agreements) Principles and Priorities” set out the method for the calculation of S106 on the Council’s website.</p> <p>It is outdated in terms of the infrastructure requirements and therefore S106 agreements require individual consultation and ad hoc agreements.</p> <p>This risk is in place until it is mitigated by the introduction of a CIL.</p>	Medium	CIL is expected to be implemented within 12-15 months.	Head of Place	August 22

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3	<p>There is a lack of documented procedures for recording of S106, monitoring of trigger points and the collection of SANGS/SAMMS.</p> <p>There is no management approval of procedures reducing their ability to ensure that processes are effective, efficient and contain appropriate safeguards</p>	Medium	Processes will be documented and approved by management.	Head of Place	31 October 2021
4	There is an inconsistent approach to which elements of the S106 obligations have been subject to indexation. In a number of agreements, it was found that significant sums were not subject to indexation resulting in a loss to the council.	Medium	Indexation will be discussed with our legal services at B&D to ensure it is always included in future S106 agreements.	Head of Place Head of Corporate Services	December 21
5	<p>There is no central log of S106 agreements. While each agreement is logged on the Uniform system, there is no overall log of the agreements in place.</p> <p>There is effective communication and collaboration between the Planning and Finance departments that mitigates this.</p>	Medium	A central log of S106 agreements will be created and introduced.	Head of Place	

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6	There is no forecasting of when income is likely to be received. There is the opportunity to utilise information (including soft intelligence) about progress to anticipate when trigger points are likely to be met.	Medium	Regular meetings (quarterly) be set up between the Finance Manager and Planning team to forecast income and cash on a rolling 12 month basis.	Head of Place	
7	It is the developer's responsibility to ensure that they notify the Council when trigger points are hit. Monitoring of trigger points is on an ad hoc basis. This risk is mitigated via interest charged to developers for late notification, so they are incentivised to notify HDC when triggers are met.	Medium	Trigger will points be recorded in the Section 106 monitoring spreadsheet and be monitored via the quarterly monitoring process.	Head of Place	July 21
8	There has been no debt greater than three months and therefore no formal debt collection processes have been required. However, there is no debt collection process that takes into account the nature of S106 obligations.	Medium	A new debt management policy is being taken to Cabinet in September	Head of Place	Oct 21
9	It is not clear how funds are being monitored to ensure that they are spent within five years of occupation of the final dwelling.	Medium	This will be done as part of the monitoring spreadsheet that will be reported to SLT on a bi-annual basis	Head of Place	July 21

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10	<p>During the course of the fieldwork stage of the audit we have not been able to fully reconcile all the information in the financial system with the information recorded in the Infrastructure Funding Statement.</p> <p>There is no management assurance that the information recorded in the Infrastructure Funding Statement for 2019/20 is accurate.</p>	Medium	Full reconciliation to be carried out on the 20/21 IFS	Head of Corporate Services	November 21
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AUDIT COMMITTEE

DATE OF MEETING: 25 MAY 2021

TITLE OF REPORT: ANNUAL INTERNAL AUDIT REPORT 2020/21

Report of: Audit Manager

Cabinet Member: Councillor James Radley, Finance and Corporate Services

1 PURPOSE OF REPORT

The purpose of this report is to inform the Committee of the Audit Manager's annual audit opinion on the effectiveness of the internal control framework for 2020/21.

2 OFFICER RECOMMENDATION

That the Committee accepts the report.

3 BACKGROUND

3.1 The Public Sector Internal Audit Standards require the Internal Audit Manager to provide an opinion on the effectiveness of the internal control framework.

3.2 The Annual Internal Audit Opinion for 2020/21 is reported in **Appendix 1**.

4 FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report

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

APPENDICES:

Appendix 1 – Annual Internal Audit Opinion 2020/21

ANNUAL INTERNAL AUDIT REPORT 2020/21



<p>Report By: Neil Carpenter Internal Audit Manager</p>	<p>Date: 30 April 2021</p>
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1. Purpose of the Annual Internal Audit Report

1.1 The Accounts and Audit Regulations 2015 requires the Council to ensure that a sound system of internal control exists. The system of internal control is designed to ensure that the council is able to achieve its aims and objectives, comply with the law, ensure financial management is effective, safeguard assets from losses due to fraud and error and have effective arrangements in place to manage risk.

1.2 In accordance with the Public Sector Internal Audit Standards and, to support the content of the Annual Governance Statement, The Internal Audit Manager must provide a report to those charged with governance, that sets out:

- The effectiveness of the Council's risk management and internal control environment.
- Presents a summary of the audit work from which the opinion is derived
- Discloses any qualifications to that opinion together with the reasons for the qualification.
- Compares the work undertaken with the work that was planned and summarise the performance.
- Reports on the performance of the internal audit function.
- Comments on compliance with the Public Sector Internal Auditing Standards.

2.0 Internal Audit Approach

- 2.1 This report will provide the annual internal audit opinion on the internal control framework that the Council had in place for 2020/21. In order to provide this opinion Internal Audit carried out a number of planned reviews identified within the annual internal audit plan.
- 2.2 A risk based Internal Audit Plan for 2020/21 was approved by the Audit Committee in July 2020. This is normally approved at the March meeting of the Audit Committee. However, due to the impact of COVID-19 this meeting did not take place and the first opportunity that the Audit Committee had to approve the plan was July 2020.
- 2.3 Each review included in the annual plan results in a formal report being issued to management, a summary of the final report will be reported to the Audit Committee.
- 2.4 Due to the impact of COVID-19 during 2020/21 our plan for 2020/21 had to be reduced and we had to prioritise our work to focus on our financial system reviews. This was because the internal audit resource was used to carry out other priority work to respond to COVID-19. At the time of writing this report there are two reports still outstanding from our 2020/21 Internal Audit Plan, these being Treasury Management and Housing Benefits. Whilst formal reports have not yet been issued for these reviews, we believe that sufficient testing and fieldwork has been completed to enable an opinion on the internal controls in place to be provided. A summary of our work together with the overall opinion on the internal control framework is shown below:

Area of Review	Opinion Provided
Accounts Payable	Satisfactory
Accounts Receivable	Satisfactory
Cash/Income Management	Satisfactory
Council Tax & Business Rates	Satisfactory
IT Controls	Satisfactory
Main Accounting	Substantial
Payroll	Limited
Section 106 Agreements	Satisfactory
Treasury Management	Opinion not yet provided
Housing Benefits	Opinion not yet provided

2.5 Work undertaken during the year has been carried out in accordance with the Public Sector Internal Auditing Standards.

1.6 For each review carried out an opinion was provided on the adequacy of the system of internal control. There are four categories of assurance on internal control that can be provided these being:

Level of Assurance
Substantial assurance: can be given where there is a sound system of controls in place which are applied consistently to enable achievement of the intended objective.
Satisfactory assurance: can be given when there is generally a sound system of internal control in place with only minor lapses, and in general objectives are being achieved.
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.
No assurance: is given where weaknesses in control has resulted in a failure to achieve objectives.

3.0 Internal Audit Opinion

3.1 The annual opinion on the risk and control framework provided by the Audit Manager is based on:

- The levels of assurance provided on each internal audit review carried out.
- That appropriate actions are taken by management to resolve risk issues identified by Internal Audit during 2020/21.
- That during 2020/21 no significant frauds were identified.

- Internal controls were sufficient to prevent attempts of fraud.
- That appropriate processes were in place to manage risk.
- That the internal control framework was sufficient for services to be provided effectively.

3.2 During 2020/21 a limited level of assurance was provided on 1 internal audit review, compared to 7 in 2019/20. We provided a satisfactory level of assurance on 6 reviews, compared to 5 in 2019/20. We provided a substantial level of assurance on 1 review, compared to 0 in 2019/20.

3.3 Whilst we did receive appropriate responses from management to resolve risk issues identified during 2020/21. We will follow up on high risk issues raised during the year.

3.4 We believe that there are sufficient controls in place to manage the risk of fraud.

3.5 We believe that appropriate processes were in place to manage risk during 2020/21.

3.6 I am satisfied that based on the resources available that sufficient work has been carried out during 2020/21, to draw a reasonable conclusion on the effectiveness of the council's internal control and risk management framework.

3.7 However, It is important to note that the overall opinion on the internal control framework is not based solely on assurances from internal audit reviews. Other factors are also considered which include:

Requirement	Achieved
Statutory officers are all in place and have been throughout the year.	Yes
Internal controls have been sufficient to mitigate the risk of fraud.	Yes
Internal controls are sufficient to ensure intended outcomes of the Council have been substantially met.	Yes
The Council has maintained an appropriate level of services to our customers and stakeholders during the year.	Yes
Appropriate separation of duties is in place.	Yes
An effective governance structure	Yes

- 3.9 No opinion can be absolute it is not possible to eliminate risk completely. Internal controls in place are considered to be sufficient to manage risk to a level that is acceptable to the Council. The overall opinion provided on the internal control framework for 2020/21 is therefore considered to be **satisfactory**.
- 3.10 However there are qualifications to this opinion. These qualifications are based on internal audit reviews where only a limited opinion was provided on the internal control framework was provided. The reasons for qualifications are given below:

Area of Review	Reasons for Limited Opinion
Payroll	Data Management weaknesses Up to date and readily available key HR policies were not always easy to find. The Starters and Leavers process is still not applied consistently by managers. Need to review and update Disclosure Barring Service Framework

4.0 Compliance with Public Sector Internal Auditing Standards

- 4.1 The service substantially complies with the requirements of the Public Sector Internal Auditing Standards, a review of performance against the standards was carried out in March 2020, as part of reporting and monitoring compliance, a summary of the current status is shown below.

Category	Number of Standards	Standards Met	Standards Partially Met	Standards Not Met
Code of Ethics	12	12	0	0
Purpose, authority and responsibility	3	3	0	0
Independence and objectivity	12	12	0	0
Proficiency and due professional care	12	12	0	0
Quality assurance and improvement programme	7	5	0	2
Managing the internal audit activity	10	9	1	0
Nature of work	13	13	0	0
Engagement planning	18	16	2	0

Performing the engagement	8	8	0	0
Communicating results	16	16	0	0
Monitoring progress	3	2	1	0
Communicating the acceptance of risks	1	1	0	0
Public Sector Specific Standards	14	13	1	0
	129	122	5	2

5.0 Fraud

- 5.1 Internal Audit will always consider the risk of fraud in all reviews that are carried out. It should be noted that during 2020/21, other than Housing Benefit and Single Person Discount Fraud, no individual frauds were identified that have had significant impact on financial resources or loss of assets.
- 5.2 During 2020/21 we carried out a Fraud Risk Assessment. The purpose of the assessment is to review the effectiveness of the internal control framework in place to manage the risk of fraud. We believe that an appropriate internal control was in place during 2020/21 to provide reasonable assurance that fraud risks are managed.
- 5.2 The Audit Manager is the key contact for managing the follow up of data matches identified as part of the National Fraud Initiative.
- 5.4 Fraud Awareness and Cyber Security Training was provided to all employees and to members during 2020/21.

6.0 Risk Management

- 6.1 Responsibility for the management of risk lies with management. Internal Audit facilitate the process and will review the effectiveness of controls in place to manage risk.
- 6.2 The Council has a Corporate Risk Register in place which is reviewed on a regular basis and is reported half yearly to Overview & Scrutiny. Each service also has a Risk Register in place.
- 6.2 The effectiveness of the risk management framework is reported to the Audit Committee. Internal Audit are satisfied that the framework in place is satisfactory.

Hart District Council Audit planning report

Year ended 31 March 2021

May 2021



Building a better
working world



06 May 2021



Hart District Council
Civic Offices
Harlington Way
Fleet GU51 4AE

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your external auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

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

We welcome the opportunity to discuss this report with you on 25 May 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Hart District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hart District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hart District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Page 33 Inappropriate capitalisation of revenue expenditure due to fraud or error	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of Property, Plant and Equipment (PPE) and Investment Property (IP)	Inherent risk	No change in risk or focus	<p>The fair values of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and, for PPE, depreciation charges as well.</p> <p>Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE and IP as of 31 March 2021 at a high inherent risk.</p>

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Ongoing Covid-19 implications, including ISA 570 Going Concern and Disclosure considerations	Inherent risk	No change in risk or focus	The unpredictability of the current environment gives rise to a risk that the Authority would not appropriately disclose the key factors impacting the year of account, or relating to going concern underpinned by management's assessment with particular reference to Covid-19, the Authority's actual year-end financial position and forecast for the going concern period of a minimum of 12 months after the auditor's report date.
Pension Liability Valuation	Inherent risk	No change in risk or focus	<p>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.</p> <p>The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>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.</p> <p>For 2020/21 the Council will need to consider the potential for the ongoing impact of the national issues in relation to the Goodwin and McCloud cases.</p>
Accounting for Covid-19 grants	Inherent risk	New area of focus	The Authority received a series of grants from the UK government during 2020/21 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an area of focus since this is a significant change in the funding streams for accounting by the Council.

Overview of our 2020/21 audit strategy

Materiality

Planning
materiality

£926k

Materiality has been set at £926k, which represents 2% of the prior years gross expenditure on provision of services, which is consistent with the prior year approach.

Performance
materiality

£694k

Performance materiality has been set at £694k, which represents 75% of materiality. Whilst this was 50% in the prior year, we have noted that improvement to the statement of accounts have resulted in increasing this percentage to the higher end of our range.

Audit
differences

£46k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and collection fund) greater than £46k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Hart District Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our commentary against specified reporting criteria (see Section 03) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Page 36
- Strategic, operational and financial risks relevant to the financial statements;
 - Developments in financial reporting and auditing standards;
 - The quality of systems and processes;
 - Changes in the business and regulatory environment; and,
 - Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. In Section 09 we have highlighted where additional work will be required for 2020/21 at this stage. We will discuss with management the associated fees as the audit progresses.

Audit team changes

Key changes to our team



Manager - Chandrika Sharma

Chandrika has been working in EY for over 4 years and has been involved in various Government and Public Sector clients with significant experience in leading teams across a range of clients.



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02 Audit risks





Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*	What is the risk?	What will we do?
	<p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none">▶ Enquire of management about risks of fraud and the controls put in place to address those risks.▶ Understand the oversight given by those charged with governance of management's processes over fraud.▶ Consider the effectiveness of management's controls designed to address the risk of fraud.▶ Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.▶ Review accounting estimates for evidence of management bias.▶ Evaluate the business rationale for significant unusual transactions.

Our response to significant risks (continued)

<p>Inappropriate capitalisation of revenue expenditure due to fraud or error*</p>	<p>What is the risk?</p>	<p>What will we do?</p>
<p>Financial statement impact</p> <p>Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.</p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ For significant capitalised additions (including REFCUS) we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16. ▶ Journal testing - we will use our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

Audit risks

Other areas of audit focus

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

What is the risk/area of focus?

Valuation of Property, Plant and Equipment (PPE) and Investment Property (IP)

The value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and, for PPE, depreciation charges. Management is required to make material judgements 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.

Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE and IP as at 31 March 2021 given the wider impact on the economy at a high inherent risk.

What will we do?

We will:

- ▶ Consider 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 test 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;
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers;
- ▶ Review the Council's assessment of PPE assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider the potential impact of Covid-19 on valuations, evaluating the need to involve our internal specialist valuations team;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test to confirm that accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

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

What is the risk/area of focus?

What will we do?

Ongoing Covid-19 implications, including ISA 570 Going Concern and Disclosure considerations

There is a presumption that the Council will continue as a going concern for the foreseeable future based on the continued provision of public services. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on its income sources, there is a need for the Council to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Council is required to ensure that disclosures within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. Disclosures may also be necessary to reflect the impact of Covid-19 across the statement of accounts.

We consider the unpredictability of the current environment, gives rise to a risk that the Council will not appropriately disclose the key factors relating to the impact of Covid-19, including on its going concern assessment.

We will:

- ▶ Continue to assess the adequacy of disclosures required in 2020/21, and the impact on our opinion, should these be inadequate;
- ▶ Obtain management's going concern assessment and review for any evidence of bias and consistency with the accounts;
- ▶ Review the financial modelling and forecasts prepared by the Council. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion;
- ▶ Ensure that an appropriate going concern disclosure has been made within the financial statements; and
- ▶ Considered the impact on our audit report and comply with EY consultation requirements, if such are determined appropriate.

Audit risks

Other areas of audit focus

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

What is the risk/area of focus?

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 deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £27.88 million.

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) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Accounting for Covid-19 grants

Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.

The Council needs to review each of these to establish the correct accounting treatment. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any outstanding conditions that may also affect the recognition of the grants as revenue during 2020/21.

What will we do?

We will:

- ▶ Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hart District Council;
- ▶ Assess 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;
- ▶ Consider any updated information in respect of the impact of national issues including Goodwin and McCloud; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

On a sample of the Covid-19 grants and funding population we will:

- Review the accounting guidance applied by the Council and assess whether the appropriate guidance was considered and correctly applied;
- Review whether any conditions are attached to grants impacting their recognition;
- Assess whether the accounting appropriately follows those judgements; and
- Ensure sufficient and appropriate disclosures are included in the accounts.



03

Value for Money Risks





Value for Money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal controls that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor's responsibilities under the new Code

Under the 2020 Code of Audit Practice we are still required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer one overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

Financial sustainability: how the Council plans and manages its resources to ensure it can continue to deliver its services;

Governance: how the Council ensures that it makes informed decisions and properly manages its risks; and

Improving economy, efficiency and effectiveness: how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- ▶ The Council's governance statement
- ▶ Evidence that the Council's arrangements were in place during the reporting period;
- ▶ Evidence obtained from our work on the accounts;
- ▶ The work of inspectorates and other bodies and
- ▶ Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement.



Value for Money

Planning and identifying VFM risks (continued)

The NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the 2020 Code has the same requirement as the 2015 Code in that we should refer to this in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to fully finalise our detailed VFM planning. However, one area of focus will be on the arrangements that the Council has in place in relation to financial sustainability in light of the impact of Covid-19. We will continue to update the Audit Committee meeting on the outcome of our VFM planning, any further changes to our risk assessment and also our planned response to any identified risks of significant weaknesses in arrangements.



04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £926k. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

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Gross expenditure on provision of services

£46.3m

Planning materiality

£926k

Performance materiality

£694k

Audit differences

£46k

We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £694k which represents 75% of planning materiality. Whilst this was 50% in the prior year, we have noted that improvements to the statement of accounts as a result of stability in the finance team have driven the increase in this percentage to the higher end of our range.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, and collection fund that have an effect on income or that relate to other comprehensive income. The threshold has been set at 5% of planning materiality.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year where issues are raised that could have an impact on the year-end financial statements.



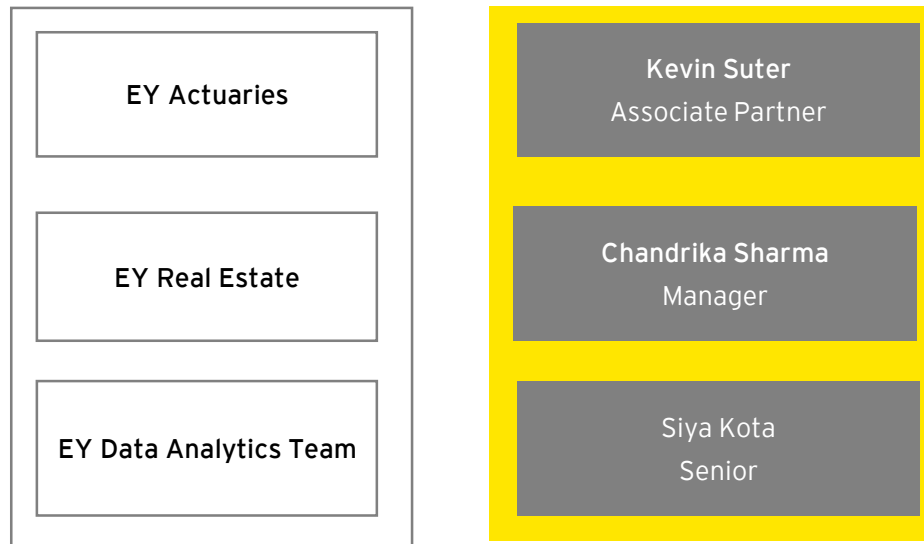
06

Audit team



Audit team

Audit team structure:



Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2020/21 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Use of specialists

Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY Actuaries

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In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes Interim audit testing (Started)	March and April 2021	Audit Committee (May)	Audit Plan 2020/21
Year end audit	August - September 2021		
Audit Completion procedures	September 2021	tbc	Audit Results Report Audit opinions and completion certificates
Commentary on Value for Money	Within 3 months of the opinion	tbc	Annual Auditor's Report



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08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>The overall assessment of threats and safeguards;</p> <p>Information about the general policies and process within EY to maintain objectivity and independence.</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We anticipate we will continue to provide non-audit services as your reporting accountant for your Housing Benefit Assurance Process (HBAP) to the DWP. This is scheduled to be completed after the target date for the audit report, and is a permitted service.

We believe that it is appropriate for us to undertake those permissible non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Relationships, services and related threats and safeguards

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



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Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2020/21	Final Fee 2019/20
	£	£
Audit Scale Fee - Code work	41,469	41,469
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	24,500	24,500
Scale fee variation - Covid-19 and Going Concern considerations, addressing significant risk on IP valuation and VFM conclusion (Note 2/Note 3)	TBC	19,009
Total Code audit fee	65,969	84,978
Other non-audit services not covered above (Housing Benefits)	11,758	14,258

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. This was described in further detail in our 2019/20 Annual Audit Letter, and agreed with the Council.
2. The 2019/20 additional fees have been discussed with management, who have challenged the level of fees, and therefore it has been referred to PSAA for their consideration and decision.
3. Additional fees are likely for 2020/21 for the changing risks associated with Covid-19. We will work with management to set out the key information requirements to underpin an efficient audit approach. Therefore, we are currently unable to quantify the impact. Similarly, we are unable to quantify the impact of the revised approach to Value for Money under the new 2020 NAO Code, as not all guidance is yet available.

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.




If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.




Appendix B

Required communications with the Audit Committee




We have detailed the communications that we must provide to the Audit Committee.

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit planning report	
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit planning report	
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit planning report	

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report	
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report Audit results report	
Certification work	Summary of certification work undertaken	Certification report	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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