



NOTICE OF MEETING

Meeting: Audit Committee

Date and Time: Tuesday 21 July 2020 7.00 pm

Place: Hart District Council Offices

Enquiries to: Celia Wood
committeeservices@hart.gov.uk

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

Joint Chief Executive

CIVIC OFFICES, HARLINGTON WAY
FLEET, HAMPSHIRE GU51 4AE

AGENDA

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

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

1 ELECTION OF VICE-CHAIRMAN

To elect a Vice-Chairman from among the Councillors.

2 MINUTES OF THE PREVIOUS MEETING (Pages 3 - 4)

The Minutes of the meeting held on 3 December 2019 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 CHAIRMAN'S ANNOUNCEMENTS

5 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.

6 INTERNAL AUDIT PLAN FOR 2020/2021 (Pages 5 - 7)

To inform members of the content of the 2020/21 Internal Audit Plan.

7 EXTERNAL AUDIT PLAN FOR 2019/2020 (Pages 8 - 56)

To approve the External Audit Plan for 2019/2020.

8 ANNUAL AUDIT LETTER FOR 2018/2019 (Pages 57 - 81)

To review the content of the 2018/2019 Annual Audit Letter.

9 ANNUAL INTERNAL AUDIT REPORT FOR 2019/2020 (Pages 82 - 88)

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 2019/2020.

10 DRAFT STATEMENT OF ACCOUNTS FOR 2019/2020

The Draft Statement of Accounts for 2019/2020 are now available for the Committee to review, these should be sent out to the committee after the meeting. It should be noted that the accounts are unaudited.

Date of Despatch: Monday, 13 July 2020

AUDIT COMMITTEE

Date and Time: Tuesday, 3 December 2019 at 7pm

Place: Council Chamber, Civic Offices, Fleet

Present:

COUNCILLORS

Harward (7.05pm), Smith, Southern (Vice Chairman), Tomlinson

Officers:

Andrew Vallance	Head of Corporate Services and S151 Officer
Neil Carpenter	Audit Manager
Sabrina Cranny	Committee Services

In attendance:

Jason Collier	Capita
Emma Foy	Capita
Kevin Suter	Ernst & Young (E&Y)

19 MINUTES OF THE PREVIOUS MEETING

The Minutes of the meeting held on 30 July 2019 were confirmed and signed as a correct record.

20 APOLOGIES FOR ABSENCE

Apologies were received from Councillors Axam, Blewett, and Delaney.

21 CHAIRMAN'S ANNOUNCEMENTS

None.

22 DECLARATIONS OF INTEREST

None declared.

23 ANNUAL GOVERNANCE STATEMENT 2018/19

The Committee considered the final Annual Governance Statement for 2018/19.

DECISION

Members approved the Annual Governance Statement 2018/19.

24 INTERNAL AUDIT PROGRESS REPORT 2019/20

The Audit Manager highlighted the key findings from audit reviews completed between August and November 2019.

Members discussed:

- Staff resource issue within SANGs/Countryside services
- Credit card usage – buying small ticket IT items without going through procurement
- Credit card signoff with no supporting information

DECISION

That the Internal Audit work completed between August 2019 and November 2019 be noted.

25 EXTERNAL AUDIT REPORT ON THE STATEMENT OF ACCOUNTS 2018/19

E&Y stated the report is due to be signed off by 6 December but delays from Capita in obtaining data from Payroll suggests the deadline would be missed.

E&Y also advised they would be undertaking nationwide training for Capita staff.

Members also discussed:

- That the Audit had taken longer than expected
- New accounting standards
- That there should be better staff training and resources in place to avoid similar problems next year
- Signing off the accounts

DECISION

- 1 The External Audit Report be noted
- 2 Subject to final approval by the Associate Partner, E&Y:
 - a The accounts for 2018/19 be approved
 - b The Chairman of the Audit Committee, in consultation with the S151 Officer, be given delegated authority to sign the accounts.

26 AUDIT COMMITTEE WORK PROGRAMME

Members considered the Audit Committee Work Programme and agreed to remove Certification of Grants Claims Report as E&Y no longer provide this report.

The meeting closed at 7.44pm.

AUDIT COMMITTEE

DATE OF MEETING: 21 JULY 2020

TITLE OF REPORT: INTERNAL AUDIT PLAN 2020/21

Report of: INTERNAL Audit Manager

Cabinet Member: Councillor James Radley

1. PURPOSE OF REPORT

To inform members of the content of the 2020/21 Internal Audit Plan, attached as **Appendix 1**.

2. RECOMMENDATION

That the Committee approves the Internal Audit Plan for 2020/21.

3. BACKGROUND

3.1 The Internal Audit Plan provides a summary of the planned work for 2020/21. The Public Sector Internal Auditing Standards require the preparation of a risk based annual plan. Senior Management have been consulted on the content of the plan, which is now reported to the audit Committee for approval.

3.2 It should be noted that for 2020/21 the Internal Audit plan is shortened. This is to take into account the impact of COVID-19 to the service normally provided by Internal Audit.

3.3 During April, May and June, the Internal Audit Team provided a resource to administer the payment of Business Grants to small businesses. This was to respond to additional work that central government required local authorities to do, as a result of the pandemic.

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

- Content of the Corporate Risk Register
- Budget
- Corporate Priorities
- Previous Audit Work and audit knowledge of the council
- Statutory Requirements

- 3.5 A significant part of the Internal Audit resource for 2020/21 is focused on the Council's financial systems. This is the statutory element of Internal Audit's work, arising from Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2011.
- 3.6 The other significant area of work planned for 2020/21, is that Internal Audit will continue to provide a resource to the 5 Councils Contract, in particular the transition of services out of the 5 Councils Contract.
- 3.7 It should be noted that there is always the possibility that planned work may change due to emerging risks, changing priorities the need to ensure resources are used effectively. This is particularly relevant this year given emerging risks from COVID-19. Any changes to the plan will be reported to the Audit Committee.

4. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

5. MANAGEMENT OF RISK

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

Contact Details: Neil Carpenter Extension: 4140
Email: neil.carpenter@hart.gov.uk

APPENDICES:

Appendix 1 – Internal Audit Plan

Draft Internal Audit Plan 2020/21			
Service Reviews	Planned Start Date	Original Plan	Revised Plan
Garden Community		10	
SANGS/S106 Agreements		10	10
Waste Contract		10	10
Data Management		10	
Commercialisation		10	
		50	20
Corporate Reviews			
IT Controls		10	10
Fraud Risk Assessment		10	10
		20	20
Finance Reviews			
Payroll		10	10
Council Tax & Business Rates		15	15
Housing Benefits		15	15
Treasury Management		10	10
Accounts Payable		10	10
Accounts Receivable		10	10
Income Management		10	10
Main Accounting		10	10
		90	90
Corporate			
Ombudsman		5	2
Audit Management		15	15
NFI/Fraud		15	10
Follow Ups		10	8
Risk Management		10	10
External Audit		5	5
Annual Governance Statement		10	6
5 Councils		40	25
Corporate Projects		50	35
Training		5	2
Audit Committee		10	8
		175	128
Total Days		335	258

Hart District Council

Audit results report

Year ended 31 March 2019

November 2019

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Agenda Item 7

EY

Building a better
working world

18 November 2019



Dear Audit Committee Members

We are pleased to attach our audit results report for the meeting of the Audit Committee on 3 December 2019. This report summarises our preliminary audit conclusion in relation to the audit of Hart District Council for 2018/19.

We are in the process of completing our audit of Hart District Council for the year ended 31 March 2019.

The audit has been challenging this year, and the Council was required to publish its accounts by its deadline of 31st July 2019 with a statement on its website explaining why our audit was not concluded at that point.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources. The Council will then be able to re-publish its accounts with an audit report.

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

We would like to thank your staff for their help during the engagement. We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 3 December 2019.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary



Executive Summary

Scope update

In our audit planning report tabled at the 28 March 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- **Changes in materiality.** We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £867k (*Audit Planning Report — £940k*).
- This results in updated performance materiality, at 75% of overall materiality, of £651k (*Audit Planning Report - £705k*), and an updated threshold for reporting misstatements of £43k (*Audit Planning Report - £47k*).
- The basis of our assessment has remained consistent at 2% of gross expenditure on provision of services.

Status of the audit

- Page 12.
- We are in the process of completing our audit of Hart District Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our audit planning report. However, the audit has taken longer than planned. Although the Council produced, and published, its financial statements on 31st May statutory deadline, these statements were at a standard lower than we would expect as the statements contained material errors. There was a lack of quality control as the financial statements had not been reviewed by senior management at Capita, nor were officers at Hart given sufficient time to review the financial statements before they were published on 31 May 2019.
 - Our first review of the Council's financial statements found that the Cashflow Statement, showing £2.854 million of Cash and Cash Equivalents, was inconsistent with the £24.8 million of Cash and Cash Equivalents in the Balance Sheet. There were also a number of other significant elements in the financial statements which were incorrect, which also included unclear PPE Valuation reporting, internal inconsistencies in the values of capital investments and a non-compliant IFRS9 disclosure.
 - Hart District Council learnt from the early audit findings of its 5 Councils partners, in June, and requested a that second set of financial statements was produced for disclosure on its website on 31 July 2019. We have yet to confirm whether this second set of financial statements was reviewed by senior management.
 - We commenced our audit on 7 October. No working papers had been provided on the first day of the revised audit, despite the principle aim of the delay to the audit being to give time to correct the material errors in the financial statements and provide a complete set of quality supporting working papers as requested.
 - At the time of writing the outstanding matters are:
 - System walkthroughs – evidence outstanding on a number of key financial systems;
 - PPE valuation – input data provided to the valuers on land areas;
 - Revised financial instrument disclosure notes
 - Debtor query, where income appears to be received before year-end



Executive Summary

- Payroll – starter and leavers testing sample;
 - Review of the final version of the financial statements;
 - Receipt of the signed management representation letter;
 - Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.
- Subject to satisfactory completion of those matters and an agreement on the issues raised in this report, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.
 - We expect to issue the audit certificate at the same time as the audit opinion.

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Audit differences

Original financial statements

- As discussed above, there were a number of significant elements in the financial statements which were incorrect, which included an inaccurate Cashflow statement, unclear PPE Valuation reporting, internal inconsistencies in the values of capital investments and a non-compliant IFRS9 disclosure.

Revised financial statements

- The statements were improved. The significant amendments identified were:
 - correction of PPE valuation disclosure note 5.01.1; and
 - correction of disclosures for financial instruments, to implement the new requirements under IFRS9 and to correct errors in debtors and creditors incorrectly classified as financial instruments when they do not meet the classification.

At the time of writing we have one remaining uncorrected misstatement, resulting from the IAS19 pension liability calculations not including an estimation for the impact of Guaranteed Minimum Pension (GMP) which in our view can be estimated. We estimate the balance to be £45k, which is over our agreed reporting threshold.

However, until the final resolution of all matters listed above, further audit differences may arise.



Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Hart District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

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

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

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

Independence

Please refer to Section 9 for our update on Independence. We have no significant independence matters to draw to your attention.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk around our Value for Money Conclusion:

- Implementation of the revised arrangements for the 5 Councils' contract.

Our detailed findings can be found in Section 5. In summary we found that the Council has 'proper arrangements' in place to secure economy, efficiency and effectiveness on its use of resources. The key headline messages are:

Implementation of the 5C's contract

Whilst there are issues with the 5C's contract, we found that the Council adequately managed the risks around this during 2018/19. We have the following key findings to report regarding our review of the 5 Councils contract:

- Key Performance Indicators (KPIs) are established for each service. Work took place to review the KPIs within the contract parameters, for introduction in April 2019. However, the effectiveness of these KPIs for the period reviewed are undermined by the fact that many of the services are tracking below the Target Operating Model ("TOM").

○ The processes implemented in updated governance arrangements, including the revised IAA, will take time to implement, but in this regard we have found that the arrangements in place are satisfactory and offer a solid basis upon which to implement the revised agreement and its delivery.

○ In our judgement the joint procurement of services is not always financially beneficial for the Councils due to the associated costs and complexities of liaising with five Councils over one contract; in fact, our work has found that it is becoming increasingly likely that the contract will struggle to break-even over its lifetime, and could even incur some degree of cost. However, the Council's recognition of this fact demonstrates that Hart District Council, and indeed the other four Councils, are willing to review and refresh arrangements in the pursuit of the achievement of value for money.

Other reporting issues

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

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. As the Councils are below the NAO thresholds, this consists simply of a return to the NAO.

We have no other matters to report.



Executive Summary

Audit Fees

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that have opted into its national auditor appointment scheme. The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies. For the Council our planned fee was set at the scale fee level and was based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- 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;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

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These assumptions have not been met in all instances and the issues encountered, along with the poor quality of the draft financial statements, are reflected throughout this report. We are proposing an increase in audit fees above the scale fee and set out in our initial plan. This arises from:

1. The increase in work associated with the risks identified for our value for money conclusion; and
2. The delays and poor quality of the financial statements.

Fees will be subject to final approval by PSAA Ltd.



02 Areas of Audit Focus



Significant risk

Risk of fraud in revenue recognition – Capitalisation of revenue expenditure

What is the risk?

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 identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.

What judgements are we focused on?

We focused on the following:

- For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support these additions and expenditure. We reviewed the sample selected against the definition of capital expenditure in IAS 16; and
- Whether management were inappropriately processing journals that transferred amounts from revenue to capital.

What did we do?

- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes; and
- Amended our sample sizes when testing PPE additions to reflect the existence of this risk. Agreed samples to source documentation to ensure the classification was reasonable

What are our conclusions?

We have not identified any issues with the classification of capital expenditure.

We have not identified any instances of inappropriate judgements being applied.

Overall our audit work did not identify any material issues.



Significant risk

Misstatements due to fraud or error

What is the risk?

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. The manipulation of capitalising expenditure could occur through management override of controls.

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What judgements are we focused on?

We focused on the following:

- Understanding the risks of fraud and the controls put in place to address those risks by management and how the Governance, Audit and Finance Board oversees management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.

What did we do?

- Wrote to the s151 officer, Chair of the Audit Committee and the Head of Internal Audit in this regard and reviewed their responses;
- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias; and
- Evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

From our work completed to date:

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.



Pension Net Liability Valuation

What is the risk?

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 Hampshire County Council Local Government Pension Scheme. The Council's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £24.773 million.

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

What judgements are we focused on?

The significance of the liability to the Council's balance sheet, as well as the difficulty in valuing some of the pension fund assets caused by their nature and size. Small changes in assumptions when valuing the pension net liability valuation can have a material impact on the financial statements.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures. We:

- liaised with the auditors of the Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hart District Council.
- assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

We are satisfied that the Council has correctly reflected the IAS 19 entries provided by their actuaries in the financial statements. We are also satisfied that the actuaries are appropriately qualified and the reasonableness of their assumptions.

We have liaised with the auditors of Hampshire County Council, and received the required information.

This year, there has also been an ongoing national issue which has meant that a late change is required to the Council's pension net liability. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling".

The final version of the financial statements now includes the increased past service cost of £470k, which increases the liability by the same amount. Disclosures amendments were made to clarify how this ruling was included in the accounts.

However, we note that the impact of Guaranteed Minimum Pensions was not included by the actuary, which results in an uncorrected understatement of £45k



Areas of Audit Focus

Valuation of property, plant and equipment

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

We also consider the assets not revalued in year to assess the likelihood of material misstatement within the population. The Code of Practice on Local Council Accounting states that where assets are revalued, revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that using the current value at the end of the reporting period. Each class of asset should normally be valued at least every five years, subject to this requirement.

What judgements are we focused on?

Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2018/19 and of the key assumptions input into these valuations.

What did we do?

We took a substantive approach to respond to this risk, undertaking the procedures set out below. We:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Challenged the assumptions used by the Council's valuers by reference to external evidence;
- Considered 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;
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated;
- Sample tested key asset information used by the valuers in performing their valuation;
- Tested accounting entries have been correctly processed in the financial statements.

What are our conclusions?

We assessed and found no issues with the valuer's qualifications, objectivity and independence to carry out such valuations. No issues were raised with regard to their key assumptions.

Accounting entries were correctly processed within the financial statements.

We verified that all PPE requiring valuations have been valued within the 5 year cycle.

We assessed the potential misstatement of assets not valued as at 31/3/2019. The significant proportion of assets were valued in 2018/19, £34.4m of the total NBV of Other Land & Building value at £36.8m. We performed procedures for the remaining assets, giving assurance that there would be no material change to their valuations.

However, the disclosures on the valuation cycle were required to be amended due to misinterpretation of the disclosure requirements which showed the annual movements, rather than the valuation by financial year over the Council's 5 year rolling programme

Some audit evidence to support the accuracy of information provided to the valuers remains outstanding. We will update the committee should any errors arise.



Other areas of audit focus

NDR Appeals Valuation

What is the risk?

The Non Domestic Rates Appeals Provision requires a number of assumptions and judgements.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the assumptions to appeals made to the 2005 and 2010 ratings lists;
- The reasonableness of the assumptions made to any appeals lodged against the 2017 ratings list, and the Council's assumptions for appeals as yet unlodged.

What did we do?

- Reviewed the calculation of the provision for accuracy;
- Ensured calculation of the provision included consideration of unlodged appeals;
- Considered the relevance and reasonableness of assumptions, methods and models used by the management specialist; and
- Performed post year-end review of appeals settled to determine whether the revised rateable value and effective date of the appeal are in line with the provision.

What are our conclusions?

We have reviewed the calculation of the provision and confirmed that the calculation was accurate.

We have confirmed that the provision considered unlodged appeals.

We reviewed the assumptions, methods and models used by management.

We have no issues to report.



Other financial statement risk

New accounting standards – IFRS 9 Financial Instruments

What is the risk?

This new accounting standard is applicable for local Council accounts from the 2018/19 financial year and changed how financial instruments are classified and measured, how the impairment of financial assets are calculated, and amend the disclosure requirements.

What did we do?

Page 23.

Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
Considered the classification and valuation of financial instrument assets;
Reviewed the new expected credit loss model impairment calculations for assets; and
Checked additional disclosure requirements

What are our conclusions?

- The Council's draft financial statements did not display sufficient and appropriate knowledge of the new accounting standard. Preparations, which could have been undertaken significantly earlier in the year, were not adequate to meet the 31 May deadline with material accuracy even though the Council lacks any complex financial instruments.
- The required disclosures for the transition from IAS39 to IFRS9 were not present within the accounts, and the terminology had not been properly updated to reflect new classifications.
- Our testing identified that these issues had not been properly addressed in the second version of the accounts.
- We also identified that the debtors and creditor values in the financial instrument disclosures were incorrect, as they contained items that did not meet the definition of financial instruments.



Other financial statement risk

New accounting standards – IFRS 15 – Revenue from contracts with customers

What is the risk?

This new accounting standard is applicable for local Council accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

Where the standard is relevant, the recognition of revenue will change and new disclosure requirements introduced

What did we do?

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- Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.
- Considered application to the authority's revenue streams, and where the standard was relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Checked additional disclosure requirements.

What are our conclusions?

- We have reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues;
- For relevant revenue streams we confirmed that revenue was recognised in line with the requirements of IFRS 15; and
- Additional disclosure requirements were in line with the requirements of IFRS 15.



Other financial statement risk

Treatment of Calthorpe School Sports Hall

What is the risk?

The sports hall is being created solely for reason of being handed over to HCC, therefore, HDC correctly treated the contract as a revenue contract in the 17/18 accounts.

HDC's capital commitment to the part-funding of Calthorpe School Sports Hall was £1.85 million and continues to be met through S106 education monies. At 31 March 2018, the remaining £1.255 million of Section 106 monies for the project were held within HDC's Corporate Services Earmarked reserves.

What did we do?

• Review whether the £1.255 million of Section 106 monies, set aside in HDC's Corporate Services Earmarked reserves, were used to pay for the Calthorpe Sports Hall commitment in 2018/19.

• review the disclosure in the 2018/19 accounts.

What are our conclusions?

- We have reviewed the draw-down of the earmarked reserve created for the Hall.
- We assessed no further disclosure were necessary.



03 Audit Report



Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HART DISTRICT COUNCIL

Opinion

We have audited the financial statements of Hart District Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- related notes 3.01 to 7.07
- Collection Fund, and notes 8.1 to 8.2.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hart District Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of Hart District Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Head of Corporate Services is responsible for the other information.

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



Audit Report

Our opinion on the financial statements

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

We have nothing to report in this regard.

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

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Hart District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Head of Corporate Services

As explained more fully in the Statement of Responsibilities set out on page 16, the Head of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.



Audit Report

Our opinion on the financial statements

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Hart District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Hart District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

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

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

Certificate

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

Use of our report

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

Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
Xx December 2019

The maintenance and integrity of the Hart District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences





Audit Differences

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

Summary of adjusted differences

Original financial statements, dated 31 May 2019.

We commenced our audit on 3 June and found, on the first morning of the audit, that the Cashflow Statement, showing £2.84 million of Cash and Cash Equivalents, was materially inconsistent with the £24.8 million of Cash and Cash Equivalents in the Balance Sheet. There were also a number of other significant elements in the financial statements which were incorrect, which included the Senior Officers’ Remuneration note, PPE Valuation reporting, and a non-compliant IFRS9 disclosures.

Revised financial statements

To date there are the following adjusted misstatements in the revised financial statements; however as we have yet to complete our work, there may be more adjusted and adjusted differences.

Corrected differences

Balance Sheet Disclosures: PPE valuation disclosure note 5.01.1 was amended to reflect the values of assets valued within the disclosed years, rather than the movements between years,

- Balance Sheet Disclosures: Financial Instruments disclosure note 5.04 was amended to properly reflect updated terminology and disclosure requirements for the adoption of IFRS9. It also corrected identified errors where the debtor and creditor balances contained items that did not meet the definition of financial instruments.

Uncorrected differences

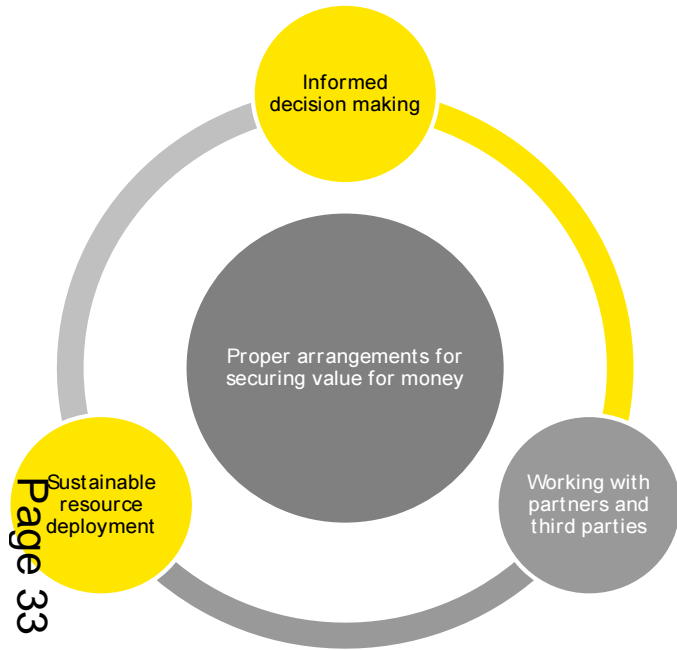
At the time of writing, there is one judgemental uncorrected variance. As discussed on page 13 we identified that the impact of Guaranteed Minimum Pensions was not included by the actuary in their IAS19 calculation, which results in an uncorrected understatement of the value of £45k, based on 0.2% of the net liability.

However, until the final resolution of all matters, further audit differences may arise.



05

Value for Money Risks



Background

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

For 2018/19 this is based on the overall evaluation criterion:

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

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

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

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

Overall conclusion

In our Audit Planning Report we identified the following significant risk around our Value for Money Conclusion:

- Implementation of the revised arrangements for .

Our detailed findings can be found overleaf. In summary we found that the Council has ‘proper arrangements’ in place to secure economy, efficiency and effectiveness on its use of resources despite the continuing risks and challenges in delivering the Council’s Medium Term Financial Plan and its Commercialisation and Digital Strategy

Whilst there are issues with the 5 C’s contract, we found that the Council adequately managed the risks around this during 2018/19.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Implementation of the revised arrangements for the 5 Councils' contract		
<p>In April 2016, Hart District Council (the Council) entered into two contracts for the provision of corporate services, in partnership with Mendip District Council, South Oxfordshire District Council, Vale of the White Horse District Council and Havant Borough Council (known as "Five Councils"). The services split into two lots; data-based services (Lot 1) and property based services (Lot 2).</p> <p>These contracts were designed to generate savings of over £50 million for the five Councils across their lifetime of nine years but the Councils have had to renegotiate Lot 1 and pull out of Lot 2 due to the issues with the way the contracts were constructed and the implications for the practical implementation of them.</p> <p>A new Inter-Authority Agreement is being negotiated which outlines the revised governance and cost sharing arrangements between the Councils. In addition, there have been a number of issues noted during implementation of the services across the Five Councils. This has led to remedial action being taken including:</p> <ul style="list-style-type: none"> • appointing a remedial adviser to review the service provision in some areas, for example, IT, and recommend actions to remedy the causes of failure; • bringing many of the joint client team, who were responsible for monitoring the contractor's performance, back in house; and • implementing additional management checks, for example, on payroll runs. <p>Given the likely changes to the IAA there is a risk that both the services and financial performance of the Council would be negatively impacted if renegotiation results in arrangements that are difficult to implement or do not deliver the intended benefits.</p>	<p>Deploy resources in a sustainable manner</p> <p>Partnership working</p>	<p>We will:</p> <ul style="list-style-type: none"> • understand the revised Five Councils' Partnership Inter-Authority Agreement and the financial impact on Hart District Council; • review the arrangements in place to monitor the implementation of the contract, in terms of whether <ul style="list-style-type: none"> • expected savings are being realised; and • good operational performance exists. • review of the governance arrangements in place by the Council to ensure that in all significant respects, the council has proper arrangements to achieve sustainable outcomes.

Page 9 of 14



Value for Money Findings

Audit findings - Implementation of the revised arrangements for the 5 Councils' contract

Hart District Council, along with its partners, have subscribed to the revised IAA, which was signed in January 2019. The revised IAA aims to support wider collaboration between the Councils according to the agreed Mutual Aims, including delivering improved value for money. The Vinci element of the original contract is terminated, and the IAA facilitates changes to the contract governance and cost sharing mechanisms. The financial mechanism now better promotes each Council paying for its own services, increasing transparency, and removing cross subsidy. The IAA also clarifies how changes can be made to the contract, clarifying the mechanisms and responsibilities for incurred costs if and where changes are sought by any of the members. There are provisions for exclusions for conflicts of interest in decision making, and a dispute resolution mechanism.

All five Councils are fully represented in the revised document, allowing for a balanced approach to decision making. A revised governance mechanism has been created to manage the arrangements arising out of the IAA. Governance bodies are now formed of a Joint Committee, a Strategic Board, an Operational Management Board, and a Service Improvement Group. Each has a defined role and membership, and the relations between each including decision making delegations, is established.

Looking at the operational arrangements, Key Performance Indicators (KPIs) are established for each service. Work also took place to review the KPIs within the contract parameters, for introduction in April 2019. However, the effectiveness of these KPIs for the period reviewed are undermined by the fact that many of the services are tracking below the Target Operating Model ("TOM"). As acknowledged by the Councils, and previously reported, it is significantly doubtful whether the contract has delivered the aspirational savings. We also remain unclear what detailed financial monitoring is taking place to measure actual savings against the aspirational targets alluded to in the original contracts. Operationally, it is not clear the degree to which the revised governance arrangements are having an impact on the performance of the contract in the year as these have not yet had sufficient time by 31 March to clearly demonstrate their impact. The effectiveness of Financial penalties is also unclear.

The processes will take time to implement, but in this regard we have found that the arrangements in place are satisfactory and offer a solid basis upon which to implement the revised agreement and its delivery.

In our judgement the joint procurement of services is not always financially beneficial for the Councils due to the associated costs and complexities of liaising with five Councils over one contract; in fact, our work has found that it is becoming increasingly likely that the contract will struggle to break-even over its lifetime, and could even incur some degree of cost. However, the Councils' recognition of this demonstrates that Hart, and indeed the other four Councils, are willing to review and refresh arrangements in the pursuit of the achievement of value for money.

Therefore, on balance we have concluded that the Councils are taking the appropriate actions to improve the contract, and therefore have arrangements in place to do so during 2018/19, starting from the baseline at the beginning of the year.

Looking forward we raise two points for which we would expect to see ongoing focus.

- Firstly, that any decisions made are not rushed to an inappropriate timescale, are made transparently and as openly as a commercial decision can be made under each Councils constitution, are in accordance with the terms of the contract, and are based on reliable performance or financial information.
- Secondly, with strengthened arrangements in place under the revised IAA, it is important that the Councils continue to monitor and manage performance over a longer period to determine whether value for money is being achieved through the partnership, and be ready to respond with remedial action if this is not the case.



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements

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

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

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

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Whole of Government Accounts

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

The Council falls below the threshold for detailed audit procedures.

Other powers and duties

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

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

Other reporting issues

Other matters

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

Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures:

- **Incorrect IFRS 9 disclosures:** The Council's draft financial statements did not display sufficient and appropriate knowledge of the new accounting standard. Preparations, which could have been undertaken significantly earlier in the year, were not adequate to meet the 31 May deadline with material accuracy even though the Council lacks any complex financial instruments. The required disclosures for the transition from IAS39 to IFRS9 were not present within the accounts, and the terminology had not been properly updated to reflect new classifications.

Any significant difficulties encountered during the audit:

- **Poor quality financial statements:** The financial statements published on the Council's website on 31 May 2019, for the public to review were significantly below the standard we expected.
- We commenced our audit in June and found that the Cashflow Statement, showing £2.854 million of Cash and Cash Equivalents, was inconsistent with the £24.8 million of Cash and Cash Equivalents in the Balance Sheet. This error resulted in a number of audit adjustments in June as officers corrected the Cashflow Statement
- There were also a number of other significant elements in the financial statements which were incorrect. These were
 - unclear PPE Valuation reporting,
 - internal inconsistencies in the values of capital financing; and
 - non-compliant IFRS9 disclosures.
- **No senior review of the accounts before the audit.** The accounts production did not allow sufficient time for the Council's S151 Officer to review these prior to publication, which we expect would have identified a number of the issues present in the draft financial statements. No review was carried out by Capita management. Quality control was left to the local team who experienced resourcing issues during the accounts production process.
- **Delays in receiving evidence:** There were a number of delays to key audit evidence being obtained. These were both at the interim and final stage, and in particular information that we required for our "walkthroughs" of the Council's key financial systems. Some information has been outstanding for a number of those systems since March 2019. When we recommenced the audit in October 2019, no working papers had been provided despite deferring the audit to allow the Council time to correct the errors within its accounts and provide the supporting working papers.



07

Assessment of Control Environment



Assessment of Control Environment

Assessment of controls

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

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

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. We have adopted a fully substantive approach, so have not tested the operation of controls.



08 Data Analytics



► Data analytics

Analytics Driven Audit

Data analytics

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

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

In 2018/19, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal Entry Analysis

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

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



09

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated 9 January 2019.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Committee on 3 December 2019.

Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The page overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included below.

We confirm that none of the services listed overleaf have been provided on a contingent fee basis.

As at the date of this report, future non-audit services are limited to the reasonable assurance engagement for the housing subsidy grant claim. There are no other future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Audit Fee – Code work	41,469	41,469	41,469	697,884
Additional fees: VFM significant risk	2,734	0	0	1,906
Additional fees: Financial Statements audit	TBC	0	0	0
Total Code fees	TBC	41,469	41,469	69,790
Non-audit services – Housing Benefit Subsidy Claim Certification	TBC	11,738	n/a	12,804
Total fees	TBC	52,207	41,469	82,954

Note on additional fees:

(1) VFM Significant risks:

Due to the Council's participation in the 5 C's partnership, we carried out value for money conclusion procedures that are not taken into account in the PSAA's scale fee.

(1) Financial Statements audit:

The Council's financial statements audit has involved more work, in terms of the planned number of hours. We have reviewed two sets of financial statements and the subsequent output in terms of two trial balances. This is more work than we planned to do when we presented our Audit Plan in March 2019. We have made reference to these errors throughout this report. Delays in the production of working papers and information requests have also contributed to the overrun.

These additional fees have been discussed with the Head of Corporate Services and are subject to final approval by the PSAA.







10

Appendices

Required communications with the Audit Committee





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

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





Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <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 	No conditions or events were identified, either individually or together to raise any doubt about Hart District Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> • Asking the Audit Committee where appropriate about whether any subsequent events have occurred that might affect the financial statements. 	Audit results report
Fraud	<ul style="list-style-type: none"> • Asking the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <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 Authority 	No issues to report.
Independence Page 50	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <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 Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report 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. 	All confirmations requested have been received
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • 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 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit results report
Written representations we request from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we request from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	No issues to 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 planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report Audit Results Report

Management representation letter

Management Rep Letter

Ernst & Young
Wessex House,
19 Threefield Lane,
Southampton.
SO14 3QB

Dear Kevin

This letter of representations is provided in connection with your audit of the financial statements of Hart District Council ("the Council") for the year ended 31st March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Hart District Council as of 31st March 2019 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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

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

A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19

We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and are free of material misstatements, including omissions. We have approved the financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.

We believe that the effects of any unadjusted audit differences, of £45,540 for GMP not included by the actuary, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because *[management to specify reason for not correcting misstatement]*

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

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

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Management representation letter

Management Rep Letter

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

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

C. Information Provided and Completeness of Information and Transactions

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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

We have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 3 December 2019.

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

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

We have disclosed to you, and the Council have complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

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

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

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

Management representation letter

Management Rep Letter

E. Subsequent Events

Other than described in Note 5.16, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report, the Statement of Accountable Officers Responsibilities and the Annual Governance Statement for 2018/19.

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

G. Ownership of Assets

Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

H. Reserves

We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

I. Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment, the IAS19 actuarial valuations of pension fund liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Property, Plant and Equipment and Pension Estimates

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We confirm that the significant assumptions used in making the estimates for PPE and Pensions Liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.



Management representation letter

Management Rep Letter

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

K. Retirement benefits

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

Yours faithfully,

Andrew Vallance – Head of Corporate Services

Chris Axam - Chair of the Audit Committee

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ED None

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PAPER D

Hart District Council

Annual Audit Letter for the year
ended 31 March 2019

January 2020

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Agenda Item 8

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world

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Focused on your future



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

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

The 'Terms of Appointment (updated April 2018)' issued by PSAA set out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary



Executive Summary

We are required to issue an annual audit letter to Hart District Council (the Council) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.
Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

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Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 18 November 2020 and reviewed by the Audit Committee on 3 December 2019.

Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 19 December 2019.
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We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP



02

Purpose and Responsibilities



Purpose and Responsibilities

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 25 January 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

▶ Expressing an opinion:

- ▶ On the 2018/19 financial statements; and
- ▶ On the consistency of other information published with the financial statements.

▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.

▶ Reporting by exception:

- ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
- ▶ Any significant matters that are in the public interest;
- ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
- ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

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

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



03

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 19 December 2019.

Our detailed findings were reported to the 3 December Audit Committee.

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

Significant Risk	Conclusion
<p>Misstatements due to fraud or error</p> <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:</p> <ul style="list-style-type: none">▶ Wrote to the s151 officer, Chair of the Audit Committee and the Head of Internal Audit in this regard and reviewed their responses;▶ Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;▶ Reviewed accounting estimates for evidence of management bias; and▶ Evaluated the business rationale for any significant unusual transactions. <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition - Capitalisation of revenue expenditure</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>We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p>	<p>Conclusion</p> <p>We:</p> <ul style="list-style-type: none"> ▶ Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed; ▶ Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes; and ▶ Amended our sample sizes when testing PPE additions to reflect the existence of this risk, agreeing samples to source documentation to ensure the classification was reasonable <p>Our testing did not identify any material misstatements from revenue and expenditure recognition.</p>

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Other Risk	Conclusion
<p>Pension Net Liability:</p> <p>The significance of the liability to the Council's balance sheet, as well as the difficulty in valuing some of the pension fund assets caused by their nature and size. Small changes in assumptions when valuing the pension net liability valuation can have a material impact on the financial statements.</p>	<p>We are satisfied that the Council correctly reflected the IAS 19 entries provided by their actuaries in the financial statements. We are also satisfied that the actuaries are appropriately qualified and the reasonableness of their assumptions.</p> <p>We have liaised with the auditors of Hampshire County Council, and received the required information.</p> <p>This year, there has been an ongoing national issue which has meant that a late change was required to the Council's pension net liability. It related to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling".</p> <p>The financial statements were amended as a result, increasing the past service cost by £470k, which increased the pension liability by the same amount.</p> <p>Disclosures amendments were made to clarify how this ruling was included in the accounts.</p> <p>An amendment was also made to the disclosures to include all movements relating to actuarial assumptions.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other risk	Conclusion
<p>Valuation of Property, Plant and Equipment, and Investment Properties.</p> <p>The value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts.</p> <p>Management are required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>In assessing this risk, we considered the material valuations of operational and investment property held by the Council, the varied nature of these assets and the basis on which they are valued, including the need to apply judgement. We also considered the assets not revalued in year to assess the likelihood of material misstatement within the population.</p>	<p>We assessed and found no issues with the valuer's qualifications, objectivity and independence to carry out such valuations. No issues were raised with regard to their key assumptions.</p> <p>Accounting entries were correctly processed within the financial statements.</p> <p>We verified that all PPE requiring valuations have been valued within the 5 year cycle.</p> <p>We assessed the potential misstatement of assets not valued as at 31/3/2019. The significant proportion of assets were valued in 2018/19, £34.4m of the total NBV of Other Land & Building value at £36.8m. We performed procedures for the remaining assets, giving assurance that there would be no material change to their valuations.</p> <p>However, the disclosures on the valuation cycle were required to be amended due to misinterpretation of the disclosure requirements which showed the annual movements, rather than the valuation by financial year over the Council's 5 year rolling programme</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
<p>Non-Domestic Rates (NDR) Appeals Valuation.</p> <p>The Non Domestic Rates Appeals Provision requires a number of assumptions and judgements</p>	<p>We focused on the following:</p> <ul style="list-style-type: none"> ▶ The reasonableness of the assumptions to appeals made to the 2005 and 2010 ratings lists; ▶ The reasonableness of the assumptions made to any appeals lodged against the 2017 ratings list, and the Council's assumptions for appeals as yet unlodged. <p>We reviewed the assumptions, methods and models used by management, and had no issues to report.</p>
<p>New Accounting standards: IFRS9 Financial Instruments.</p> <p>This new accounting standard was applicable for local authority accounts from the 2018/19 financial year and changed how financial instruments are classified and measured, how the impairment of financial assets are calculated, and amend the disclosure requirements.</p>	<ul style="list-style-type: none"> ▶ The Council's draft financial statements did not display sufficient and appropriate knowledge of the new accounting standard. Preparations, which could have been undertaken significantly earlier in the year, were not adequate to meet the 31 May deadline with material accuracy even though the Council lacked any complex financial instruments. ▶ The required disclosures for the transition from IAS39 to IFRS9 were not present within the accounts, and the terminology had not been properly updated to reflect new classifications.
<p>New Accounting standards: IFRS15 Revenue from Contracts with Customers</p> <p>This new accounting standard was applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p>	<ul style="list-style-type: none"> ▶ We reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues; ▶ For relevant revenue streams we confirmed that revenue was recognised in line with the requirements of IFRS 15; and ▶ Disclosures were in line with the requirements of IFRS 15.
<p>Treatment of Calthorpe School Sports Hall</p> <p>HDC's capital commitment to the part-funding of Calthorpe School Sports Hall was £1.85 million and continues to be met through S106 education monies. At 31 March 2018, the remaining £1.255 million of Section 106 monies for the project were held within HDC's Corporate Services Earmarked reserves.</p>	<ul style="list-style-type: none"> ▶ We found that the £1.255 million of Section 106 monies, set aside in HDC's Corporate Services Earmarked reserves, were used to pay for the Calthorpe Sports Hall commitment in 2018/19. The disclosure in the 2018/19 accounts was correct.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Matters

We reported other significant findings from the audit

Significant difficulties encountered during the audit;

- **Poor quality financial statements:** The financial statements published on the Council's website on 31 May 2019, for the public to review were significantly below the standard we expected.
- We commenced our audit in June and found that the Cashflow Statement, showing £2.854 million of Cash and Cash Equivalents, was inconsistent with the £24.8 million of Cash and Cash Equivalents in the Balance Sheet. This error resulted in a number of audit adjustments in June as officers corrected the Cashflow Statement
- There were also a number of other significant elements in the financial statements which were incorrect. These were
 - unclear PPE Valuation reporting,
 - internal inconsistencies in the values of capital financing; and
 - non-compliant IFRS9 disclosures.
- **No senior review of the accounts before the audit.** The accounts production did not allow sufficient time for the Council's S151 Officer to review these prior to publication, which we expect would have identified a number of the issues present in the draft financial statements. No review was carried out by Capita management. Quality control was left to the local team who experienced resourcing issues during the accounts production process.
- Due to the impact of the above, there was a clear inability to complete the audit by the Council's target date of 31 July, We agreed with the s151 officer to reschedule the audit for a later period in order for officers to be able to correct the statements, and prepare and accurate supporting working papers according to our agreed information request.
- **Delays in receiving evidence:** There were a number of significant delays to key audit evidence being obtained. These were both at the interim and final stages, and in particular information that we required for our "walkthroughs" of the Council's key financial systems. Some information for a number of those systems took 6 months to provide. When we recommenced the audit in October 2019, no working papers had been provided despite deferring the audit to allow the Council time to correct the errors within its accounts and provide the supporting working papers.
- The overall audit process this year was subject to ongoing challenges and delays, considerably lengthening the time required to be able to complete the audit.

Financial Statement Audit (cont'd)

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £867k, which is 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £43k.

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

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

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

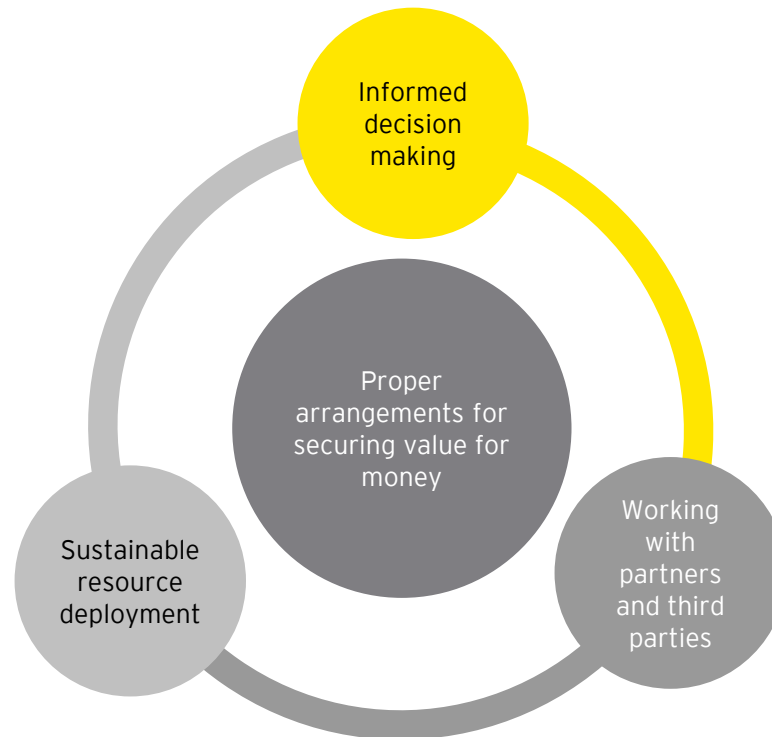


04 Value for Money

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

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

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



We identified one significant risk in relation to these arrangements. The table overleaf present the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention.

We performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. Therefore, we gave an unqualified Conclusion on 19 December 2019.

Significant Risk	Conclusion
Implementation of the 5 Councils (5 C's) contract	<p>Whilst there are issues with the 5 C's contract, we found that the Council adequately managed the risks around this during 2018/19. We have the following key findings to report regarding our review of the 5 C's contract:</p> <ul style="list-style-type: none">○ Key Performance Indicators (KPIs) are established for each service. Work took place to review the KPIs within the contract parameters, for introduction in April 2019. However, the effectiveness of these KPIs for the period reviewed are undermined by the fact that many of the services are tracking below the Target Operating Model ("TOM").○ The processes implemented in updated governance arrangements, including the revised IAA, will take time to implement, but in this regard we have found that the arrangements in place are satisfactory and offer a solid basis upon which to implement the revised agreement and its delivery.○ In our judgement the joint procurement of services is not always financially beneficial for the Councils due to the associated costs and complexities of liaising with five Councils over one contract; in fact, our work has found that it is becoming increasingly likely that the contract will struggle to break-even over its lifetime, and could even incur some degree of cost. However, the Council's recognition of this fact demonstrates that Hart District Council, and indeed the other four Councils, are willing to review and refresh arrangements in the pursuit of the achievement of value for money.



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

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

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

Annual Governance Statement

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

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

Report in the Public Interest

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

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

Written Recommendations

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

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

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Reporting Issues (cont'd)

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 3 December 2019. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

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

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls. The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
Capita payroll and pensions administrative services were under-resourced	There were significant delays in responses to audit queries on payroll and pensions systems which we are required to walkthrough.



06

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>
CIPFA guidance on property investment	<p>On 15 November 2019 CIPFA released guidance to advise local authorities on what is expected of them when investing in property.</p>	<p>This guidance should be reviewed to ensure good practices are being adopted, and the Council's activities are consistent with the guidance.</p>



07

Audit Fees

Audit Fees

Our fee for 2018/19 is increased from the scale fee set by PSAA. This is a result of:

- The identification of one value for money conclusion risk.
- Significant issues experienced in the delivery of the financial statements audit, as referred to within section 3 of this Annual Audit Letter.

Description	Final Fee 2018/19 £	Planned Fee 2018/19 £	Scale Fee 2018/19 £	Final Fee 2017/18 (previous auditor) £
Total Audit Fee - Code work	63,045	41,469	41,479	69,790
Non-audit work - Claims and returns	11,738	11,738	n/a	12,804

Further information on the scale fee variations are set out below. This is subject to approval by PSAA Ltd.

Description	Value	Rationale
VFM significant risk - 5 C's Contract	3,068	Addition to audit scope to address the Council's response to the qualification of its VFM conclusion in the prior year,
Financial Statements audit	18,508	Additional work undertaken as a result of delays and issues experienced during the audit as reflected in section 3 of this letter.
Total Proposed Scale fee Variation	21,576	

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AUDIT COMMITTEE

DATE OF MEETING: 21 JULY 2020

TITLE OF REPORT: ANNUAL INTERNAL AUDIT OPINION

Report of: Audit Manager

Cabinet Member: Councillor James Radley

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 2019/20.

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 2019/20 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 2019/20



ANNUAL INTERNAL AUDIT REPORT 2019/20

Report By: Neil Carpenter Internal Audit Manager	Date: 19 June 2020
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1. Purpose of the Annual Internal Audit Report

- 1.1 The Accounts and Audit Regulations 2015 requires that the Council ensures 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 2019/20. 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 2019/20 was approved by the Audit Committee in March 2019.
- 2.3 Each review included in the annual plan would normally result in a formal report being issued to management. However due to the impact of COVID-19 in March, 3 planned reviews were not completed during 2019/20. However, sufficient work was completed to enable an opinion on the internal controls in place to be provided for these 3 reviews.
- 2.4 Work carried out during the year has been carried out in accordance with the Public Sector Internal Auditing Standards.

- 2.5 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 if 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 2019/20.
- That during 2019/20 no frauds were identified.
- Internal controls were sufficient to prevent attempts of fraud.
- That appropriate processes were in place to manage risk.

- 3.2 During 2019/20 a limited level of assurance was provided on 7 internal audit reviews. We provided a satisfactory level of assurance on 5 reviews.

- 3.3 Whilst we did receive appropriate responses from management to resolve risk issues identified during 2019/20, we have yet to see whether actions taken by management are sufficient to improve the internal control framework.

- 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 2019/20.
- 3.6 I am satisfied that based on the resources available that sufficient work has been carried out during 2019/20, to draw a reasonable conclusion on the effectiveness of the council's internal control and risk management framework.
- 3.7 The 2019/20 Internal Audit Plan was substantially delivered. It should be noted that the impact of COVID-19 did result in 3 reviews not being fully completed. However sufficient work had been completed to enable an opinion to be provided on the control in place for each of these reviews.
- 3.8 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:
- Statutory officers are all in place and have been throughout the year.
 - Internal controls have been sufficient to mitigate the risk of fraud.
 - Internal controls are sufficient to ensure intended outcomes of the Council have been substantially met.
 - The Council has maintained an appropriate level of services to our customers and stakeholders during the year.
 - Appropriate separation of duties is in place.
- 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 2019/20 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
Accounts Payable	<ul style="list-style-type: none"> • Financial Regulations need to be reviewed and updated. • The use of purchase orders does not always comply with the purchase to pay process. • Procurement rules need to be reviewed and updated.
Accounts Receivable	<ul style="list-style-type: none"> • Recovery action is not effective in that all options are not used in a timely manner.

Credit Card Usage	<ul style="list-style-type: none"> • Credit Card Policy was not always adhered to. • Supporting information was not always retained for all purchases.
Housing Benefits	<ul style="list-style-type: none"> • Processing of new claims did not meet agreed performance targets. • The recovery of overpayments is not effective.
Payroll	<ul style="list-style-type: none"> • Data Management weaknesses • Up to date and readily available key HR policies were not always easy to find.
Main Accounting	<ul style="list-style-type: none"> • Integrity of data conversion from the legacy finance system to the new version of Integra. • 2019/20 opening balances had not been brought forward into the accounts until March 2020.
Rent Deposits	<ul style="list-style-type: none"> • Inconsistent approach to manage outstanding balances.

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 2019/20, other than Housing Benefit and Single Person Discount Fraud, no frauds were identified that required a formal investigation.
- 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 Training was provided to all employees and to members during 2019/20, half yearly newsletters were also produced to continue to raise awareness of fraud risk.

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 effectiveness of the risk management framework is reported to the Audit Committee. Internal Audit are satisfied that the framework in place is satisfactory.