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NOTICE OF MEETING

Meeting: Audit Committee

Date and Time: Tuesday 24 May 2022 7.00 pm

Place: Council Chamber

Enquiries to: Committee Services

committeeservices@hart.gov.uk

Members:

Joint Chief Executive

CIVIC OFFICES, HARLINGTON WAY FLEET, HAMPSHIRE GU51 4AE

AGENDA

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

Please download all papers through the Modern.Gov app before the meeting.

- At the start of the meeting, the Lead Officer will confirm the Fire Evacuation Procedure.
- The Chairman will announce that this meeting may be recorded and that anyone remaining at the meeting has provided their consent to any such recording.

1 ELECTION OF VICE CHAIRMAN

To elect a Vice-Chairman from among the councillors.

2 MINUTES OF THE PREVIOUS MEETING (Pages 4 - 7)

The Minutes of the meeting held on 22 March 2022 are attached to be confirmed and signed as a correct record.

3 APOLOGIES FOR ABSENCE

To receive any apologies for absence from Members*.

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

4 DECLARATIONS OF INTEREST

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

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

5 CHAIRMAN'S ANNOUNCEMENTS

6 EY AUDIT PLANNING DOCUMENT FOR 2022-23 (Pages 8 - 53)

The purpose of this report is to provide the Audit Committee with the 2022-23 External Audit Planning Report.

RECOMMENDATION

That Members formally note the content of the External Audit Planning Report.

ANNUAL AUDIT LETTER 2020/21 (Pages 54 - 90)

The purpose of this report is to provide the Council's External Auditors Annual Audit letter with the conclusions of the 2020/21 audit to those charged with governance. This report is provided at Appendix 1.

RECOMMENDATION

That Members formally note the content of the Annual Audit Letter.

8 INTERNAL AUDIT PROGRESS REPORT Q4 (Pages 91 - 117)

To update the Committee on Internal Audit work carried out between March and May 2022.

RECOMMENDATION

That the Internal Audit work completed between March 2022 and May 2022 be noted.

9 SHAPLEY HEATH GARDEN COMMUNITY PROJECT

Chris Harris, Audit Director from tiaa will provide members with a verbal update of the Shapley Heath Garden Community Project Audit.

10 ANNUAL INTERNAL AUDIT REPORT 2021/22 (Pages 118 - 125)

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 2021/22

RECOMMENDATION

That the Committee accepts the report.

11 THE PROVISION OF INTERNAL AUDIT (Pages 126 - 127)

The purpose of this report is to seek agreement regarding future delivery of internal audit services.

RECOMMENDATION

The procurement process is noted by the Committee.

Date of Publication: Monday, 16 May 2022

AUDIT COMMITTEE

Date and Time: Tuesday 22 March 2022 at 7.00 pm

Place: Council Chamber

Present:

Butler, Crookes, Davies, Farmer, Southern (Chairman) and Wildsmith

In attendance: Councillor Axam

Kevin Suter, Ernst & Young

Chandrika Sharma, Ernst & Young

Officers: Emma Foy, Head of Corporate Services & S151 Officer

Joanne Innes, Audit Manager

Daryl Phillips, Joint Chief Executive

Rebecca Borrett, Committee Services Officer

27 MINUTES OF THE PREVIOUS MEETING

The Minutes of the meeting held on 7 December 2021 were confirmed and signed as a correct record.

28 APOLOGIES FOR ABSENCE

Apologies were received from Councillor Blewett and Councillor Axam. Councillor Butler was present as substitute for Councillor Axam.

29 DECLARATIONS OF INTEREST

No declarations made.

30 CHAIRMAN'S ANNOUNCEMENTS

The Chairman announced a decision had been made by the Chairman of the Council to continue to appoint Public Sector Audit Appointments to procure external audit services on our behalf. This is a continuation of existing arrangements.

31 AUDIT RESULTS REPORT FOR 2020/21

Mr Suter from Ernest and Young presented members with the final Audit Results report for the year ending 31 March 2021, covering the objection that had been outstanding when the report was previously presented.

The objection pertained to concerns regarding the financial controls, budget and reporting processes. This included the waste contract, where an incorrect journal entry entered had been corrected. Recommendations were made to

improve controls to prevent this happening across any other contracts or processes.

The remainder of the objection related to Value for Money arrangements, EY summarised their findings. From their conclusions, there were no significant issues with the recharges made around the waste or any significant weaknesses in the Council's financial arrangements, and therefore no reason report any weaknesses in their audit report.

DECISION

- 1. Members formally noted the opinion of the Auditors on the draft Statement of Accounts.
- 2. That in all other respects the report of the External Auditors was noted.

32 ANNUAL GOVERNANCE STATEMENT

Members were presented with the version of the Annual Governance Statement presented to them previously, which they had paused approval of pending the objection being resolved. The objection has been concluded and therefore the Annual Governance Statement had been signed by both Cllr Neighbour and Mr. Phillips, as required.

DECISION

The Committee approved the Annual Governance Statement 2020/21.

33 STATEMENT OF ACCOUNTS/LETTER OF REPRESENTATION

The Letter of Representation had been provided in Ernst & Young's earlier report which both the Chairman and Section 151 Officer were required to sign. Members had been provided with Version 4 of the Statement of Accounts, which has all adjustments made and been reviewed by Ernst & Young.

DECISION

That delegated authority is given to the Chair of Audit Committee in consultation with the Head of Corporate Services for the final approval of the 2020/21 Statement of Accounts and Letter of Representation.

34 INTERNAL AUDIT PROGRESS REPORT

The Audit Manager updated the Committee on Internal Audit work completed between November 2021 and February 2022. Four audit reports were issued, six audits are in progress and three audits are due to commence this month. A

full list of progress for each audit had been provided to members, together with completed audit reports.

A member asked if it was felt joint working with another council was working well for us. The Audit Manager confirmed it was.

DECISION

That the Internal Audit work completed between November 2021 and February 2022 be noted and the staff involved were thanked for the work they have done.

35 INTERNAL AUDIT PLAN 2022/23

The Chairman advised he would like to see the Shapley Heath audit report expedited and completed as quickly as possible. Confirmation was giving that:

- Field work commenced 28 February 2022
- The final report is due no later than 3 months after work was contracted.
- 12 days work are involved in the SLA agreement
- It is within the budget previously approved by this committee
- An approach will be made to the auditors in the next week to see if this can be expedited
- It will be brought to the Audit Committee once completed, and any items identified from any draft reports of relevance will be reported to members of this committee

DECISION

The Committee approved the Internal Audit Plan for 2022/23.

36 WHISTLEBLOWING POLICY

The Audit Manager informed members of a review of the Whistleblowing Policy. The only change from the previous version was to the details of the company that act as independent organisation to contact for advice.

Members asked if formal adoption of the policy was required. Members also identified amendments needed to version numbers of the policy.

DECISION

The Committee noted the updates to the Whistleblowing Policy and recommended it be forwarded to the next Cabinet meeting in June.

37 RISK MANAGEMENT UPDATE

The Audit Manager informed members the Corporate Risk Register had been approved by Overview and Scrutiny the previous week and a review of the Risk Management Policy would be undertaken in 2022/23.

A member asked if clear ownership of risks were now in place. The Audit Manager advised working with managers and the leadership team together with reviewing the corporate and service risk registers, helped by service panels, resulted in being better placed for that responsibility.

Members discussed the importance of service panels reviewing both the right risks and the use of the right KPI's. The general view was service panels are working well.

DECISION

The Committee noted the effectiveness of the risk management framework.

The meeting closed at 7.27 pm

AUDIT COMMITTEE

DATE OF MEETING: 25th May 2022

TITLE OF REPORT: EY AUDIT PLANNING DOCUMENT FOR 2022-23

Report of: Head of Corporate Services and S.151 Officer

Cabinet Member: Councillor James Radley, Finance and Corporate

Services

1. PURPOSE OF REPORT

1.1 The purpose of this report is to provide the Audit Committee with the 2022-23 External Audit Planning Report.

2. OFFICER RECOMMENDATION

2.1 That Members formally note the content of the External Audit Planning Report.

3. BACKGROUND AND SUMMARY OF KEY ISSUES

3.1 Ernst & Young LLP, the Council's External Auditors, have issued their Annual Audit Planning report for 2022/23

4. FINANCIAL AND RESOURCE IMPLICATIONS

4.1 The report summarises areas that required additional or special audit procedures in response to areas of specific risk and the results of previous audit work.

Contact: Emma Foy, emma.foy@hart.gov.uk

APPENDICES

Appendix 1 – AUDIT PLANNING REPORT







Hart District Council Civic Offices Harlington Way Fleet GU51 4AE

Dear Audit Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

10 May 2022

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

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

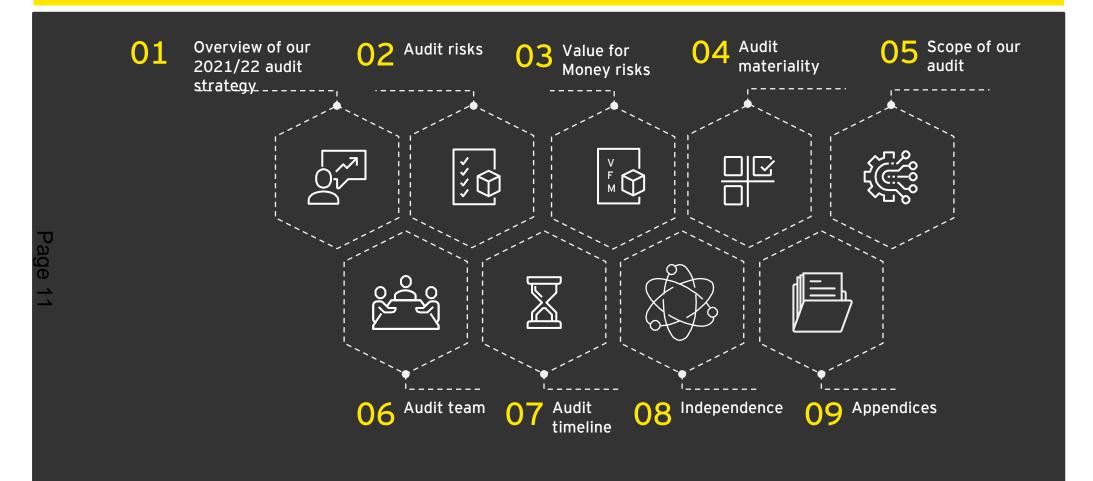
We welcome the opportunity to discuss this report with you on 24 May 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment-and-further-

guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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





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

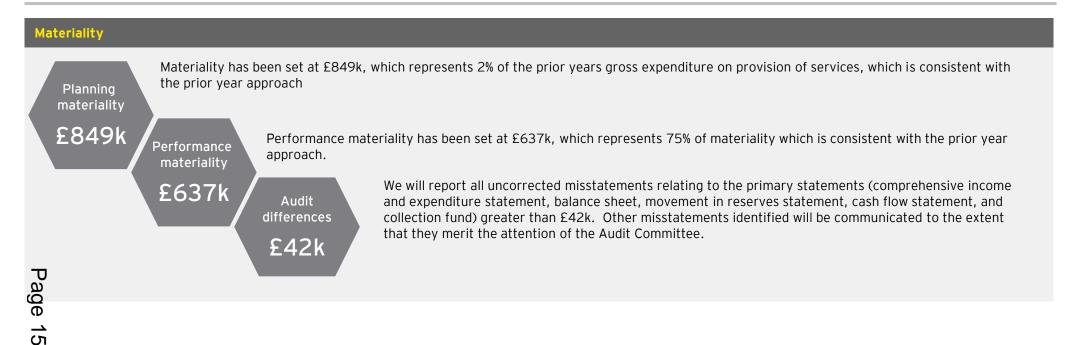
Audit risks and areas of focus				
Risk / area of focus	Risk identified	Change from PY	Details	
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.	
Inappropriate capitalisation of revenue expenditure due to fraud or error	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.	
စိုaluation of Investment Properties	Significant risk	Increase in risk	The fair value of Investment Property (IP) has previously mainly been attributed to one asset, however the Council purchased a further investment property in the current financial year which has increased the total projected year end balance to £17m. This represents significant balances in the Council's accounts compared to prior year and are subject to valuation changes and impairment reviews. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet which triggers the use of experts by management and EY likewise. Although the economic conditions may now be considered more stable, there are still uncertainties with regards to valuations impacting Investment Properties, which are held at Fair Value. With a greater value of properties held by the Council, we therefore have increased the risk on investment properties compared to prior year to significant risk for valuations as at 31 March 2022.	
Valuation of Property, Plant and Equipment (PPE)	Inherent risk	No change in risk or focus	The fair values 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 as well. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Covid-19 brought additional uncertainties with regards to valuations in 2021 and we will continue to assess the impact of current economic conditions on the valuation of PPE as of 31 March 2022 at a high inherent risk.	



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

Audit risks and areas of focus				
Risk / area of focus	Risk identified	Change from PY	Details	
Pension Liability Valuation Page	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on	
4			the use of management experts and the assumptions underlying fair value estimates.	
Accounting for Covid-19 grants	Inherent risk	No change in risk or focus	The Authority received a series of grants from the UK government during 2020/21 in support for the pandemic crisis management and continued to receive funding in 2021/22. We identified the accounting treatment of those grants as an area of focus since this is a significant change in the funding streams for accounting by the Council as well as due to the number of differences identified in the previous year.	





Audit scope

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

- Our audit opinion on whether the financial statements of Hart District Council give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

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

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

For 2021/22, we will be applying a digital audit approach which puts data at the heart of the audit. Throughout the audit, we begin each task by considering data first, whether it is planning for the audit, performing risk assessment, or responding to risks.

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

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

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

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Hart District Council's audit, we will discuss these with management as to the impact on the scale fee.



Audit scope (continued)

Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Value for money conclusion

We include details in Section 03 but in summary:

We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

- > We will provide a commentary on the Council's arrangements against three reporting criteria:
 - > Financial sustainability How the Council plans and manages its resources to ensure it can continue to deliver its services;
 - > Governance How the Council ensures that it makes informed decisions and properly manages its risks; and
 - > Improving economy, efficiency and effectiveness How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- > The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

The Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years).

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22.

We are working with the Council to deliver the audit ahead of 30 November. In Section 07 we include a provisional timeline for the audit.



Our response to significant risks

Misstatements due to fraud or error

What is the risk?

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

As identified in ISA (UK) 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.

This risk could manifest in:

- Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council.
- Management bias in key accounting estimates and judgements.

What will we do?

We will:

- Identify fraud risks during the planning stages;
- Inquire of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of 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 regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements;
- Assess the nature of any significantly unusual transactions identified;
- Consider if management bias is present in the key accounting estimates and judgements in the financial statements.

Our response to significant risks

Inappropriate capitalisation of revenue expenditure
(Fraud Risk)

Financial statement impact

mappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.

Expenditure that should be revenue may be inappropriately funded from capital resources.

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.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

What will we do?

Our approach will focus on:

- For significant capitalised additions (including REFCUS) we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- ► Journal testing we will use our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

Our response to significant risks

Valuation of Investment Properties (Significant Risk)

Financial statement impact

relation to valuation could affect the year end carrying value of assets valued by the Council as at 31 March 2022.

What is the risk?

The fair value of Investment Property (IP) has previously mainly been attributed to one asset however the Council purchased a further investment property in the current financial year which has increased the total projected year end balance to £17m. This represents significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet which triggers the use of experts by management and EY likewise. Although the economic conditions may now be considered more stable, there are still uncertainties with regards to valuations impacting Investment Properties, which are held at Fair Value. With a greater value of properties held by the Council, we therefore have increased the risk on investment properties compared to prior year to significant risk for valuations as at 31 March 2022.2.

What will we do?

We will:

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre, or assessing comparative market information);
- Challenge key assumptions used by the valuers;
- Consider the annual cycle of valuations to ensure that assets have been valued annually as required by the Code for IP, and any significant changes notified to the valuer including changes in rental or other tenancy agreements;
- Consider the potential impact of current economic environment on valuation uncertainties while also evaluating the need to involve our internal specialist valuations team; and
- Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

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

What is the risk/area of focus?

Valuation of Property, Plant and Equipment (PPE)

The value of DRC and EUV assets represents a significant balance in the Council's accounts and it is subject to revaluation changes and impairment reviews.

Management is required to make material injudgemental inputs and apply estimation chniques to calculate the year-end balances Pecorded in the balance sheet.

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DRC and EUV assets are subject to regular review by the external valuers - Capita.

Valuation of these assets involves higher risk estimates due to the significant assumptions and judgments involved in their valuation, which triggers the use of experts by management and EY (where necessary). These estimates give scope for higher inherent risk in this area of accounts therefore we have identified PPE as an area of focus.

What will we do?

We will:

- ► Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuers;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers;
- Review PPE assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- ► Consider the potential impact of current economic conditions on valuation uncertainties;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test to confirm that accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

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

What is the risk/area of focus?

Pension Liability Valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £30.06million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

and therefore management engages an actuary to undertake the calculations their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Accounting for Covid-19 grants

Central Government have provided a number of different Covid-19 related grants to local authorities during the year which were new in the prior year i.e. 20/21. There are also funds that have been provided for the Council to disseminate to other bodies.

Similar to prior year, the Council needs to review each of these to establish the correct accounting treatment. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any outstanding conditions that may also affect the recognition of the grants as revenue during 2021/22. We continue to identify this area as high inherent risk given the number of issues identified in the prior year.

What will we do?

We will:

- Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hart District Council;
- Assess the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

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

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



Value for Money

Council's responsibilities for value for money

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

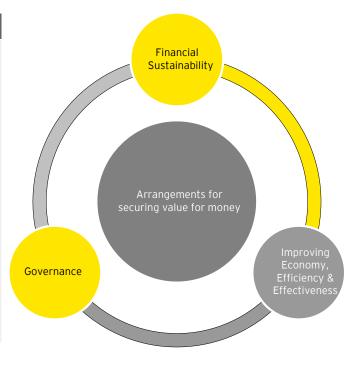
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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

Auditor responsibilities

Under the NAO Code of Audit Practice 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. The Gode requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

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

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

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in an amount of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

 $\stackrel{\mathbf{a}}{\mathbf{c}}$ Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;

⚠ Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;

ELeads to - or could reasonably be expected to lead to - unlawful actions; or

• Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

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



∀alue for Money

Responding to identified risks of significant weakness

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

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

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



Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM planning, but at this stage have identified no significant risks.

We will update the next Audit Committee meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.



₩ Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £849k based on prior year draft accounts. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. When setting the materiality threshold, we took into account the main activities of the Council and also considered its overall risk profile and public interest in comparison to other councils. We have provided supplemental information about audit materiality in Appendix C.



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

Key definitions

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

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £637k which represents 75% of planning materiality.

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

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

Specific materiality - We identified accounts or disclosures for which misstatements of less than PM could be expected to influence the economic decisions of users of the financial statements.

Thus, we have set a materiality of £5,000 for officers' remuneration, related party transactions, members' allowances and exit packages disclosures in the financial statements. This reflects our understanding that an amount less than our main materiality could influence the economic decision of the users of the financial statements in relation to these areas. This specific materiality is set at the remuneration banding used in the officer emoluments note.

₩ Audit materiality

Materiality

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

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

For more details, refer to **Specific materiality** discussion on the previous slide.

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Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and

whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

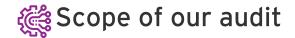
Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO.
- 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, 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 and report a commentary on those arrangements.



Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

As in previous years, we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

For 2021/22 we will be applying a Digital Audit approach which puts data at the heart of the audit. Throughout the audit, we begin each task by considering data first, whether it is planning for the audit, performing risk assessment, or responding to risks.

O Analytics:

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

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

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



Example 2 Scope of our audit

Audit Process overview

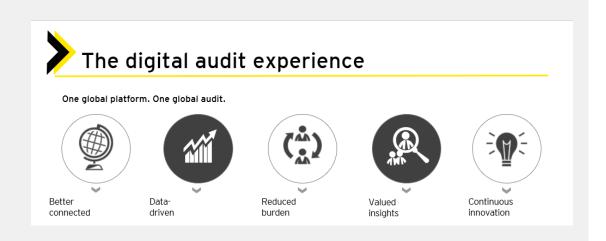
The Digital Audit enhances our ability to:

- > Understand changes in the business and processes
- > Evaluate and respond to fraud risks
- > Evaluate going concern
- > Evaluate impairment
- > Focus on cash

The Digital Audit experience includes use of the Client Portal which has a number of benefits:

reduces email communication, saving you time when supporting the audit;

- provides on demand visibility into the status of audit requests, improving project management; and
- better security of data and automatic uploading into EY Canvas, creating confidence that data has been properly provided.



Audit Process overview

Internal audit

We will review internal audit plans and the results of their work. We will reflect on these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that could have a material impact on the financial statements.





Use of specialists

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

Area	Specialists	
Valuation of Land and Buildings	EY Real Estates; Management's external experts: Capita We will also consider any valuation aspects that require EY valuation specialists to review any material specialist assets and the underlying assumptions used.	
<u>Pe</u> nsions disclosure	EY Pensions; Management's external expert: Aon.	

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

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

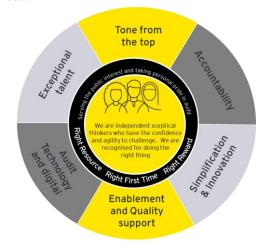
- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work;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



Page

Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

- 1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
- 2. The essential attributes of our audit business are:
 - ► Right resources We team with competent people, investing in audit technology, methodology and support
 - Right first time Our teams execute and review their work, consulting where required to meet the required standard
 - Right reward We align our reward and recognition to reinforce the right behaviours

3. The six pillars of **Sustainable Audit Quality** are implemented.



Tone at the top

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality

Exceptional talent

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management



Accountability

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition

Audit technology and digital



The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality



Simplification and innovation

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit



Enablement and quality support

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are encouraged and empowered to challenge and exercise professional scepticism across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment. expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

"A series of company collapses linked to unhealthy cultures.....have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success."

> Sir John Thompson Chief Executive of the FRC





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

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

	Audit phase	Timetable	Audit committee timetable	Deliverables
	Planning:	April 2022	Audit Committee	Outline Audit Planning Report
r aye	Risk assessment and setting of scopes.			
c	Walkthrough of key systems and processes	April 2022		
	Year end audit	September – October 2022		
	Audit Completion procedures	October 2022	Audit Committee	Audit Results Report Audit Opinions
		November 2022 (TBC)	Audit Committee	Auditor's Annual Report and Completion Certificates



Introduction

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

Required communications

Planning stage

- The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;

The overall assessment of threats and safeguards; Information about the general policies and process within EY to maintain objectivity and independence.

Final stage

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

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

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



Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is below 1:1. No additional safeguards are required.

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

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



Relationships, services and related threats and safeguards

Self review threats

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

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

Management threats

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

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



Other threats

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

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

Other communications

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021: https://www.ey.com/en_uk/about-us/transparency-report-2021





Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The fee for 2021/22 reflects the year 4 of the new 5 year contract awarded by PSAA.

	Planned fee 2021/22	Final Fee 2020/21
	£	£
Total Fee - Code work	41,469	41,469
Proposed scale fee rebasing (Note 1)	30,625	30,625
Spale fee variation - e.g. prior year adjustment, property valuation errors, Covidgrants errors (Note 2)	-	13,212
pact of the New Code of Audit Practice, and revised ISA540 (Note 3)	9,948	9,948
ection to the accounts	-	5,325
Total Code audit fee	82,042	100,579
Total other non-audit services (Housing Benefits)	11,758	11,758
Total fees	93,800	112,337

All fees exclude VAT

- (1) In our 2019/20 Annual Audit Letter we set out our rationale for a rebasing the audit fee to address changes in professional and regulatory requirements, and the associated impact on audit procedures. PSAA determined the scale fee for 2019/20, but have not indicated whether this was recurrent. Therefore, as these issues have not changed, we repeat our submission for a rebasing of the scale fee for 2020/21 and 2021/22. The inputs are unchanged, but the value increases by 25% compared to 2019/20 as PSAA fee variation rates have increased by that amount.
- (2) A scale fee variation has been proposed for specific issues relating to the 2020/21 audit, including prior year adjustments, differences and errors in relation to property valuations, errors in Covid-19 grants accounting. The variation for 2020/21 will be determined by PSAA.
- (3) PSAA have written to all local authorities to indicate a range of fees for the impact of the 2020 Code of Audit Practice and new auditing standards. We have calculated the impact for Hart DC in 2020/21 to be at the lower end of PSAA's ranges. We have assumed this will be applicable for 2021/22, as the impacts are recurrent.



Required communications with the Audit Committee

We have detailed the comr	Our Reporting to you	
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit	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	 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
Going concern	 Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: Whether the events or conditions constitute a material uncertainty Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	 Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation The effect of uncorrected misstatements related to prior periods A request that any uncorrected misstatement be corrected Material misstatements corrected by management 	Audit results report



Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Subsequent events	► Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit results report
Page 48	 Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity Any fraud that we have identified or information we have obtained that indicates that a fraud may exist Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: 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
Related parties	 Significant matters arising during the audit in connection with the entity's related parties including, when applicable: Non-disclosure by management Inappropriate authorisation and approval of transactions Disagreement over disclosures Non-compliance with laws and regulations Difficulty in identifying the party that ultimately controls the entity 	Audit results report



Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Pag	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: The principal threats Safeguards adopted and their effectiveness An overall assessment of threats and safeguards Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report and Audit Results Report
External confirmations	 Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report
Consideration of laws and regulations	 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 	Audit results report
Internal controls	► Significant deficiencies in internal controls identified during the audit	Management letter/audit results report



Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	► Any circumstances identified that affect the form and content of our auditor's report	Audit results report Auditor's Annual Report
Reporting S C O	 Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report Audit results report
lue for Money	 Risks of significant weakness identified in planning work Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. 	Audit planning report Audit results report Auditor's Annual Report



Appendix C

Additional audit information

Objective of our audit

Our objective is to form an opinion on the Council's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Other required procedures during the course of the audit

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

Gur responsibilities required by auditing standards

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



Additional audit information (continued)

Other required procedures during the course of the audit (continued)

Procedures required by the Audit Code	 Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. 	
	Examining and reporting on the consistency of consolidation schedules (if any) or returns with the Council's audited financial statements for the relevant reporting period	
Other procedures	We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice	

We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.

Purpose and evaluation of materiality

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

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

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

EY | Assurance | Tax | Transactions | Advisory

About EY

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

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ED None

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AUDIT COMMITTEE

DATE OF MEETING: 25th May 2022

TITLE OF REPORT: ANNUAL AUDIT LETTER 2020/21

Report of: Head of Corporate Services and S.151 Officer

Cabinet Member: Councillor James Radley, Finance and Corporate

Services

1. PURPOSE OF REPORT

1.1 The purpose of this report is to provide the Council's External Auditors Annual Audit letter with the conclusions of the 2020/21 audit to those charged with governance. This report is provided at Appendix 1.

2. OFFICER RECOMMENDATION

2.1 That Members formally note the content of the Annual Audit Letter.

3. BACKGROUND AND SUMMARY OF KEY ISSUES

3.1 Ernst & Young LLP, the Council's External Auditors, have issued their Annual Audit Letter which provides the conclusions of their work carried out relating to the year ended 31 March 2021.

4. FINANCIAL AND RESOURCE IMPLICATIONS

4.1 The report summarises areas that required additional or special audit procedures in response to areas of specific risk and the results of their audit work.

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APPENDICES

Appendix 1 – ANNUAL AUDIT REPORT



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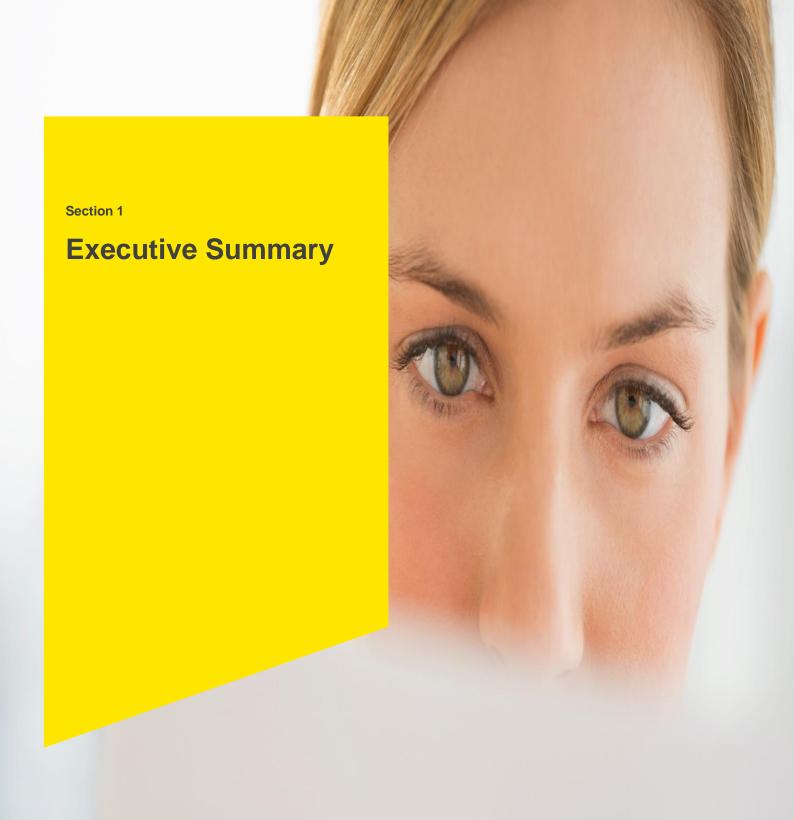
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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

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



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 22 March 2022.
Going concern	We have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of other information published with the financial statements	Financial information in the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 09 March 2022 to the 22 March Audit Committee.
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 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks and errors in relation prior year adjustments, valuation of Property, Plant and Equipment (PPE) and Investment Property (IP), pension liability valuation and accounting for Covid-19 related grants. We also undertook work to address an objection to the Council's accounts. As a result, we will agree an associated additional fee with the Section 151 Officer. We include details of the final audit fees in Appendix 1.

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

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



Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 06 May 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements:
- · Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, annual report and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Financial Statement Audit

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The Annual Report and 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.

On 24 March 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 22 March 2022 Audit Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk

Misstatements due to fraud or error - management override of controls

An ever present risk that management is in a unique position to commit 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.

Inappropriate capitalisation of expenditure

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.

Conclusion

We did not identify any material weakness in controls or evidence of material management override.

We did not identify any instances of inappropriate judgements being applied, or of any management bias in accounting estimates.

We did not identify any inappropriate journal entries or other adjustments to the financial statements.

Our sample testing of additions to Property, Plant and Equipment found that they had been correctly classified as capital and included at the correct value.

Our sample testing did not identify any revenue items that were incorrectly classified.

Our data analytics procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

Continued over.

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus

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

The value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and, for PPE, depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. These judgments cover both assets that are revalued within the year and, the continuing material accuracy of those valued in prior periods.

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

Conclusion

Our testing of valuation of Property, Plant and Equipment (PPE) and Investment Property (IP) found differences where we challenged the valuer's methodology. We brought these to the attention of the Audit Committee in our report at the 07 December 2021 meeting.

At the 22 March 2022 meeting, we communicated that we reviewed the agreed changes to the amended set of accounts and had no other matters to bring to the attention of the Audit Committee in this area.

Other area of audit focus

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

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

The Council is then required to ensure that disclosures within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

We consider the unpredictability of the current environment, gives rise to a risk that the Council will not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19.

Conclusion

We did not identify any events or conditions in the course of our audit that may cast significant doubt on the entity's ability to continue as going concern.

Management had used the basis of their assessment to produce the disclosures included within the draft financial statements. We are satisfied that the revised disclosure note appropriately sets out the circumstances surrounding the financial implications prevalent at the date of authorisation of the financial statements.

Continued over.

Other area of audit focus

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

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

Conclusion

Our sample testing of Covid-19 related grant funding identified grants that were incorrectly classified. These were corrected by the finance team.

No other material issues noted.

Pension Liability valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £27.88 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We completed our procedures as per our audit plan and did not identify any material differences to report.

We noted that a new issue arose in the current year due to the impact of revised ISA 540. This was consistent across all local government audits that needed to be resolved prior to us being able to fully conclude our work. We planned to take an audit approach to this estimate based on procedures to evaluate management's process. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we modified our planned approach and undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. The calculated liability was within our expected range. Therefore, we had no material differences to report in this area.

Continued over.

Audit differences

Management corrected, within the authorised financial statements, audit differences in relation to:

- ► Reclassification of Civic offices from Investment Property (IP) to Property, Plant and Equipment (PPE) of £2.9m;
- ► An adjustment in the treatment of Local Restrictions Support Grant (LRSG Open) (£0.2m), Local Authority Discretionary Fund (£0.7m) and Additional Restricts Grant (£2.8m) from agent to principal for the total amount of £3.7m; and
- We would also like to note that there were amendments arising out of our challenge to the external valuer of PPE and IP which we have included in this section from a qualitative perspective. The main impact was noted on two assets where purchasers' cost was not deducted appropriately and led to downward valuation of £468k.

Prior period adjustment:

Due to finalisation of the report on waste contract charges, we proposed that the Council add a prior period adjustment to the accounts due to the materiality of amounts of this difference along with the S106 debtors difference that was raised in the previous Audit Results Report at the 7th December 2021 committee. This led to a correction of £1,324k in 2019/20 figures in the accounts. The details of these adjustments are below:

- (i) Waste Contract Accruals A review of the waste contract identified that two invoices had been mistreated as debtors instead of creditors and two invoices had been omitted from the accounts resulting in net expenditure within Environmental and Technical Services being understated by £929k in the comprehensive income and expenditure account. On the balance sheet, debtors were overstated by £371k and creditors understated by £558k.
- (ii) Section 106 Debtor A S106 debtor invoice had been incorrectly recognised within 2019/20 accounts where the agreement trigger point had not yet been activated. This resulted in net expenditure within Community Services being understated by £395k and debtors on the balance sheet being overstated by £395k.

We identified a small number of misstatements in disclosures which management corrected. However, management did not adjust the accounts for the following on the basis of materiality:

- ▶ Purchasers' cost by the external valuer not being deducted at the market level expected as at 31/03/2021 and has an overall impact of £66k across two assets.
- Prior year difference's turnaround effect (Turnaround effect is the post-tax impact of uncorrected misstatements related to the prior period, on results of the current period). This was due to purchasers' cost not being deducted from an investment property in the prior year.

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 £923k, as 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 £46k.

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:

- ► Cash/bank balance: We audited all disclosures and undertook procedures to confirm material completeness
- ▶ Remuneration disclosures: We audited all disclosures and undertook procedures to confirm material completeness.
- ► Related party transactions. We audited all disclosures and undertook procedures to confirm material completeness



Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 07 December 2021 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the Section 151 Officer and her team and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21. However, we noted that we had also received an objection on the financial statements of the Council which was under review.

Reporting

We had no matters to report by exception in the audit report.

We completed our planned VFM arrangements work on 09 March 2022 which included the conclusion on the objection to Council's accounts and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability
 How the Council plans and manages its resources to ensure it can continue to
 deliver its services;
- Governance
 How the Council ensures that it makes informed decisions and properly
 manages its risks; and
- Improving economy, efficiency and effectiveness:
 How the Council uses information about its costs and performance to improve
 the way it manages and delivers its services.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Medium-Term Finance Strategy (MTFS) is reviewed twice annually and involves discussions with the Chief Executive (CE), Head of Corporate Services and presented in committee meetings to make those charged with governance aware of most significant pressures arising. The Finance Manager is in regular discussion with the Business Partners (BPs) in the monthly catch ups. All services are assigned a BP and their role is to be in regular discussion within their services to identify financial pressures arising. The MTFS contains a 5-year projection of net expenditure and funding sources and highlights any funding gaps arising.

It maintains an update to date medium term financial strategy

Where there are significant changes occurring in the year which affect the MTFS assumptions, these will be built into the MTFS workings to see the effect. In 2020/21 this resulted in an MTFS being taken to the Cabinet in September 2020. The 21/22 Budget and MTFS was taken to Cabinet in December 2020. During 20/21, updates on the budget were taken to the Cabinet and Council meetings in October 2020, January 2021 and March 2021. This is taken to the committee meetings by the Head of Corporate Service/S151 Officer and collated through internal meetings to monitor the financial impact of services.

VFM Commentary

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Arrangements are in place to identify funding gaps and assess plans to address them. It keeps these plans under review, such as amending the commercial strategy in light of the Covid-19 pandemic.

Budgets are set with regard to priorities, and monitored.

Pressures are reported to the committee meetings in a transparent manner and taken into account in the MTFS. Further financial monitoring is also introduced where needed due to the impact of Covid-19 as the Council made a large number of payments of government grants as an agent/principal. This monitoring tracked the expenditure incurred against the grants received and reported back to the distributor of grants. Any additional expenditure as a result of Covid that required approval was approved by the Chief Executive and then reported to Cabinet. This was generally where additional expenditure was needed at short notice for items specifically as a result of Covid-19.

How the body plans to bridge its funding gaps and identifies achievable savings

The MTFS contains a 5-year projection of net expenditure and funding sources

The MTFS contains a 5-year projection of net expenditure and funding sources and highlights any funding gaps arising.

As a result of the gaps identified the Council carried out an exercise to identify opportunities to save money or generate income and benefit local community. The ideas arising were moderated by the Chief Executive, Head of Corporate Services and relevant committees to set a 5-year Corporate Plan/Commercial Strategy of projects to be delivered. This plan is updated and extended as further funding gaps are identified.

Progress on delivery of the plan is reported to the Cabinet through the MTFS. While the Council has a plan in place, it is recognised that Covid-19's impact on the economy is likely to reduce the number of Commercial Opportunities with short term gain and the need to review investment strategy. The Council notes that there is risk involved in this approach however reserves are also maintained to solve short-term issues.

The Council is also aware of CIPFA's review of related guidance, which may impact its commercial strategy.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

Formal budget setting is carried out in advance of the relevant financial year with updates during the year as appropriate. This involves discussions between service manager and their Business Partners to ensure that funding is built in to deliver the statutory priorities on a monthly basis.

The Council maintains a Corporate Plan and Local Strategy which sets out its strategic priorities. Service managers and Business Partners are made aware of the content of the document and take this into account when setting the budgets each year.

The delivery of the plan is monitored through the monthly budgetary control process and quarterly performance is reported for challenge at Overview and Scrutiny and noting at Cabinet.

Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

Operational changes are identified by Business Partners during the year through discussion with their service budget holders; they are also involved in checking any reports going to overview and scrutiny committee which have financial implications. This will include specific plans for the organisation. Any significant changes are highlighted in the budget monitoring/MTFS.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Budget monitoring and updates feed into the MTFS, and the capital programme is aligned with revenue impacts.

The Council has a number of well-established partnerships which are built into the normal budgetary control processes. Any significant changes to the partnership will be subject to reports to the overview and scrutiny committee which will highlight the financial implications. Business Partners as well as the Head of Corporate Service will be involved in the production of these reports and can capture the implication for the financial plan.

There is an established monitoring process carried out by the finance team which feeds into the annual budget monitoring and the MTFS. Projects to be added to the Capital programme are subject to the completion of a capital budgeting spreadsheet. The funding needs for the resulting capital programme are discussed between the Finance manager, Capital Programme manager and ultimately with the Head of Corporate Service. Any need for revenue contributions or use of reserves is also identified and monitored through the monthly finance meetings.

It was noted that due to the impact of Covid-19, focus was directed on responding to the pandemic and as a result of which the investment programme was deferred. We also note that the Cabinet in Sept 2021 agreed an additional business case be explored to bring forward the next revision of the Local Plan as well as identify business cases for savings to feed into the MTFS. This shows that the Council responds to the current economic condition to ensure plans are consistent across its various strategies/budgeting.

Financial sustainability (continued)

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The monthly budget monitoring process examines all income and expenditure against budgets. It highlights at an early stage where expenditure is being incurred but where insufficient or no budgetary provision exists. Monthly meetings are held with Head of Corporate Services to review the current financial position as reported by business partners. This is backed up by the budget monitoring updates to the Cabinet on a quarterly basis, where any unplanned changes in demand from their budget meetings with service managers are picked up and any appropriate revision to the budget is added in. Where there are significant changes occurring in the year which affect the MTFS assumptions, these will be built into the MTFS workings to assess the effect.

Monthly budget monitoring identifies risks and changes impacting significant financial planning assumptions. A Corporate risk register is in place and is reviewed on monthly by management and reported to the Overview and Scrutiny committee every 6 months. Service risk registers are also in place which detail the risks identified through the service delivery plans. These are reported via the service panels and ultimately to the Overview and Scrutiny committee along with Corporate risk register.

Reserves are also available to solve short-term issues.

Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has a risk management policy based on which it should provide regular updates to the Overview and Scrutiny Committee through a Corporate Risk Register. The Council's policy is based on the principles of Identifying, Evaluating, Mitigating and Review & Reporting. This stresses that risk management is an integral part of everyday management through Heads of Service and is appropriately considered as part of decision making. The policy sets out the roles and responsibilities of each function i.e. internal audit, elected members, relevant committees, leadership team and Heads of Service to identify the risks to their services every year. The report is collated by the Internal Audit Manager and presented to Overview and Scrutiny Committee and Audit Committee. In particular, the report highlights those risks where further actions are needed.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

An appropriate risk management policy is in place, and the work on internal audit supports the monitoring of controls.

As noted above, service risk registers are in place. The risks identified in the service risk registers feed through from the service plans. Risks are reported via the service panels. Service panels are reported to Overview and Scrutiny.

The Council maintains an Internal Audit (IA) service which undertakes the IA plan for the financial year. The internal audit service provides independent assurance on the effective operation of controls in accordance with the internal audit strategy and charter. A plan of work is set for the team each year and the progress on delivering the plan and the latest findings arising are reported to each meeting of the Audit Committee. The result of this work is used in the Annual Head of Internal Audit's Opinion report along with other sources of assurances on internal control available that year, to provide the Audit Committee an annual assurance opinion.

As well as the Internal Audit service, the Councils also has an anti-fraud and corruption policy that makes it the responsibility of each employee to be aware of the possibility that fraud, corruption and theft may exist in the workplace and be able to share their concerns with management, including how to report potential fraud or corruption.

The scope of the work carried out by internal audit includes testing the adequacy of controls to prevent or detect fraud or error. The reports include overall assurance opinions for each audit and highlight any weaknesses in controls designed to prevent and detect fraud and error. The Annual Head of Internal Audit's report also highlights any income or expenditure errors (including the value) which have been identified from audit testing. During the current year, the IA function was also requested to include the Covid-19 payments under their review to gain assurance over such payments and the process. The review concluded in reasonable assurance. This demonstrates that the Council responds to the risks identified.

The Section 151 Officer is also kept aware of any significant fraud investigations, particularly where internal fraud is suspected and is often the steering officer for these cases so is aware of what is being found in these cases. We also noted this through our regular meetings with the S151 officer.

Finally, we note that the overall Head of Internal Audit's opinion was 'Satisfactory'.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body approaches and carries out its annual budget setting process

This is a continuous process normally commencing in June before Full Council approval in the following February. Forms are distributed around August each year to individual Budget Holders, which contains

- Revenue
- Capital
- · Fees and Charges

Budget holders are requested to make their Budget requests for the forthcoming year. Each form that is distributed specifically contains their respective Cost Centres and associated Account Codes.

Forms are distributed via email, along with associated instructions for completion including a deadline for return. Within the forms there are headings with regards for "Growth" and "Savings" along with an explanation requirement as to why this is necessary compared to the current year's budget

All revenue budgets are consolidated within their services and will then be part of a provisional Net Cost of Service, which will be subject to scrutiny and amendment. The Head of Corporate Service is responsible for overseeing the whole process and will regularly monitor the budget position from an overall perspective including the financing of the budget from central government grants, retained business rates and council tax funding.

Budget monitoring is completed monthly on Integra. The Finance Manager is responsible for coordinating the process and formulating the latest revenue and capital projected outturn.

Once all the information has been collated the business partner with delegated responsibility from the Head of Corporate Services pulls together the overall budget proposed and updates the 5-year projections. The budget set and the council tax implications are presented to the Cabinet and then for final approval by Full Council for the annual council tax setting decision.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

We note that within the Financial Regulation report of the Council there are processes and procedures to ensure that the Council has effective systems to exercise budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed. Initially an overspend is identified between the Budget Holder and their Business Partner.

Where an overspend occurs it may be possible to manage this by use of a Budget Virement following appropriate approvals.

Scheme of Delegation mitigates against overspending to date, in such that increasing levels of expenditure (Purchase Orders and Contracts) require approval from officers with higher levels of seniority.

Overspends are also highlighted to members in reports that go to Overview and Scrutiny and Cabinet during the year. Where Budgets are expected to vary and Forecast adjustments are subsequently made these are detailed in appendices for members to review.

The Head of Corporate Services reports to the Cabinet and Council quarterly as part of an overall performance management reporting process. The monitoring report includes the actual expenditure against the budget and explanations for any large deviations. This includes financial and performance reporting with areas identified that needs corrective action based on the overspending incurred during the year and how the Council can implement corrective action/savings to reduce the overspending.

Budget holders are also provided with on-going training to equip them with the necessary knowledge and skills to undertake this role. During 2021, Budget holders were provided with bespoke Budget Monitoring Training. The training was specifically written for Hart DC, using Hart's Chart of Accounts and processes.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Arrangements are in place to manage the budget, and bespoke training has been delivered during the year.

Governance (continued)

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Constitution, including the Scheme of Delegation to Officers, sets out how different types of decisions are made, including who has the responsibility for making them and what procedures should be followed. Procedures include publishing committee report on the Council's website in advance of meetings.

The Cabinet is the part of the Council that is responsible for most day-to-day decisions. The Cabinet comprises the Leader and between two and nine other councillors who are appointed by the Leader. In the current year, there were 8 members including the leader. When major decisions are to be discussed or made, these are published in the Cabinet's forward plan in so far as they can be anticipated. If these major decisions are to be discussed with council officers at a meeting of the Cabinet, this will generally be open for the public to attend except when personal or confidential matters are being discussed. The Cabinet has to make decisions that are in line with the Council's overall policies and budget. If it wishes to make a decision that is outside the budget or policy framework, this must be referred to the Council as a whole to decide. The Constitution contains a detailed explanation of roles and responsibilities of each committee which in turn lead to effective working of the Council.

arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council has had the

Decision making is guided by the principles and rules set out within the Constitution.

The Monitoring Officer and Chief Finance Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means and are present at all the executive Committee meetings.

Any key decisions due to be made should be published 28 days prior, to enable wider transparency and opportunities for representation to the decision makers.

The Audit Committee's role is not to challenge the decisions of the Council/Cabinet, that is the role of the Overview and Scrutiny Committee. Their role is to review and receive relevant reports related to risk management, fraud, internal and external audit.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Standards are maintained through Codes of Conduct.

Governance (continued)

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

In accordance with the Localism Act 2011 Hart DC has a Code of Conduct which sets out the behaviours expected from our members, and arrangements in place to deal with any matters identifies of ethics, honesty and member conduct. This includes a formal member complaint procedure which is overseen by the Monitoring Officer. New members receive an induction session on the Code including how to declare interests in advance of committee meetings.

The complaints received and actioned are included on the Council's 'Help & advice' page. A standards sub-committee is set up when a significant breach by a member requires investigation and the conclusion is reported at the next meeting of the Audit Committee and Full Council.

The Council's Code of Conduct and Disciplinary Rules and Procedure aim to maintain appropriate standards of conduct at work by employees. All new employees complete induction on the content of the Code. The revised policy includes section on gifts, hospitality and interests to meet the needs of the Bribery Act. The Council's Anti-Fraud and Corruption policy also deals with the policy on gifts, hospitality and bribery.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement.

The monthly budget monitoring process examines all income and expenditure against budgets. It highlights at an early stage where expenditure is being incurred but where insufficient or no budgetary provision exists.

This is reported to the Head of Corporate Services to take corrective action in the form of identifying savings or redistribute resources depending on the size of the overspend. This is further reported to the Council and Cabinet through quarterly budget monitoring reports as discussed above.

The Councill has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

It uses financial and non financial information, with a clear expectation to put the 'customer' at the heart of processes.

The Council has amended its budget based on its forecasting taking into account the impact of covid and also the grant funding that was provided during 20/21. Due to the overspend on budget in the current year, the Cabinet has agreed to review the local plan and MTFS to identify business cases of further savings and income generation to support the services of the Council.

At the end of the year any areas which were overspent are discussed in the Business Partners meeting and an action plan devised to work with the service to bring the spend under control.

We note that an example of this is the Capita 5 Councils' contract. While this was entered into to pool resources and ensure efficient working, it was noted that the services offered and output was not per the planned approach for Hart DC. Based on performance monitoring and other KPIs, it was decided that the Council will exit from the contract to ensure better quality of service functions going forward.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council uses a range of mechanisms, both formal and informal, to evaluate its performance in delivering services, and for identifying and delivering service improvement opportunities.

It starts from the top, with a clear expectation that the services provided should be delivered in a way that puts the customer at the heart of the process. This is further evaluated through feedback options on various services that Hart DC provide through an online customer form. This can be done through several ways including by phone, email, going to the Council offices, via the website or social media.

The Council also assesses its performance through various sources discussed above including the review of the Corporate and Service Risk Registers, Budget monitoring reports etc.

Finally, the quarterly performance report assesses the Council's performance against KPIs identified in each service area. This is taken to the Overview and Scrutiny Committee as well as Cabinet.

Improving economy, efficiency and effectiveness (continued)

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations. and ensures action is taken where necessary to improve

The Council maintains a corporate list of its significant partnerships. These are assessed for their significance in terms of the results they seek to deliver, their profile/reputation and resources involved.

The Council has a joint waste contract with Basingstoke and Deane Borough Council (BDBC). During 20/21 Hart DC was the lead i.e. all invoices from Serco were paid by Hart and then charged to BDBC for their share of the costs. We note that the Council engaged an independent reviewer, RSM, to evaluate the impact of the difference noted in the general ledger in relation to the waste contract. Assurance was gained that the Council had materially correctly invoiced the balances to BDBC, however, errors were identified within the ledger resulting in a prior period adjustment to the accounts.

The other main area of significant partnerships is the 5 Councils contract however the scope of services under the contract were reduced at the beginning of FY 20/21. This was due to timely monitoring and assessment of KPIs and a further cost v benefit analysis. In conclusion, it was agreed that the HR and payroll function would be brought back in-house, and finance function will be delivered by Mendip DC which was also part of the 5Cs contract. Further, the exchequer service which remained with Capita during FY 20/21 was brought back under HDC from 1/04/2021.

The two examples above show that the Council take action where necessary and monitors the performance of the Council. The information is also taken to the relevant Council meetings to engage stakeholders at the appropriate time.

passed to Basingstoke & We also note that as part of our review of the objection to the financial statements in the waste contract matter, we raised the following recommendations under Section 27(6) of the Local Audit and Accountability Act 2014, that regarding access to the general ledger and who can process journals, the Council should:

- 1. Review access to the general ledger to ensure any individual with access to post journals is appropriately trained and has the relevant experience to do so;
- 2. Review user authorisation limits to facilitate appropriate review and authorisation of journals posted to the general ledger.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Partnerships are identified and monitored, with corrective action taken when required.

The joint waste contract management arrangements have Deane BC after the 2020/21 year.

Improving economy, efficiency and effectiveness (continued)

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Procurement guidance is in place, supported by training to the management team.

Contract Standing orders are in place to achieve efficiencies which were revised and approved by Cabinet in November 2020. The Contract Register is also in place and published on the Council's website to support transparency.

Procurement procedures are in place and are available to officers via SharePoint. These procedures include a step-by-step guide to 'Buying Something'. There has also been a recent 'toolkit' training for management team. This toolkit covered procurement – rules and regulations- quotes, who to ask and when to tender and the exemption process to ensure compliance with laws and regulations.

The Council had outsourced its procurement function to Capita under the 5 Councils contract. In common with the Council's approach to Payroll and Accountancy, the intention is to bring the service back in house, in order to fully assess the condition of the service and assess the appropriate route for future provision from 1/04/2021. A joint decision was made across the 5Cs to insource procurement. The Council had limited use of the contract due to limited procurement activities as the majority of the services are outsourced or shared with other Councils. There were no penalty costs of exiting this element of the service.

A growth bid is being prepared for 2022-23 budget to procure procurement portal software to manage large procurements in the future.

The Council has agreed a recommendation as a result of the objection to the accounts which we will follow up as part of our 2021/22 VFM arrangements work.

Recommendations

As a result of the VFM procedures we have not made any recommendations. However, through our work on the objection to the accounts, we have made the following non-statutory recommendation:

- Regarding access to the general ledger and who can process journals, the Council should
 - Review access to the general ledger to ensure any individual with access to post journals is appropriately trained and has the relevant experience to do so; and
 - Review user authorisation limits to facilitate appropriate review and authorisation of journals posted to the general ledger.

The Council faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

Forward look

Looking forward to 2021 and beyond, like many local authorities the Council continues to face financial pressures over the medium term, which we would expect to see continually updated and reflected within the Medium Term Financial Plan.



Other Reporting Issues

Governance Statement

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

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

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the Council to complete this work as required.

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 received an objection to the Council's accounts for the year ended 31 March 2021.

The objection asked that we issue a public interest report in relation to the financial controls and the budget and reporting processes.

The supporting information to the objection covered a number of concerns, which were:

- 1. Unexpected £1.1m on the Waste Contract;
- 2. Changing the budget and reporting basis;
- Budget not internally consistent;
- 4. Big swings between budget heads;
- 5. Big changes to the Medium Term Financial Plan (MTFP); and
- 6. Weak controls in an example service area HASETT New Settlement

In considering the objection we carried out the following work:

- Requested a formal response from the Council regarding the issues accepted for the objection;
- Considered the Council's formal response and associated evidence;
- Requested further supplementary information from the Council to clarify a number of issues and further questions; and
- Provided to the objector the material information obtained in the course of our work, requesting any other facts they believed were relevant to deciding the objection.
- Reviewed and considered the objector's response to the material information for factual information, and relevance to the year under audit.

Other Reporting Issues

We decided that we would not issue a public interest report in relation to the financial controls and the budget and reporting processes.

Further information on the objection and our conclusion in relation to each of the 6 concerns raised is included within our Audit Results Report, published on the Council's Audit Committee agenda papers of 22 March 2022.

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

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.

Other Reporting Issues (cont'd)

Control Themes and Observations

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

We have adopted a fully substantive 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**

During our audit procedures, we noted that a debtor of Reversal of £391k debtor in the financial £391k was raised before completion of the milestone required to trigger receipt of Section 106 amount. We note that robust monitoring of trigger points was also raised as a recommendation during the internal audit review of Section 106 agreements in the current year and management have responded to the recommendations raised. While a credit note was raised by the Council and the debtor has been reversed following our audit procedures, we believe this is an area of improvement for the future.

statements.

- 1) During our journal entry testing, we noted that there was a delay in posting credit notes for invoices raised in error (e.g. due to incorrect address). In both cases the credit notes were issued in January/March 2020 and therefore related to FY 19/20 but posted to the GL in November 2020 and accounted under FY 20/21.
- 2) A correction of the waste contract charge was identified by the Council related to charges until FY 2020/21. This was supported through a reconciliation exercise by an external independent reviewer with a total impact of £950k on the I&E. This was also picked up during our current year testing of income and expenditure transactions.

This difference was partly due to delays in raising invoices, and the independent reviewer noted that recharges to Basingstoke were not always done on a monthly basis.

- A delay in posting to the general ledger could lead to income/expenditure not being appropriately recognised in the correct year.
- 1) As the amount of the two invoices in this point was not material a back-posting to prior period ledger was not considered necessary.
- 2) The difference highlighted in this point has an impact of £950k on the I&E. This is in addition to the impact of the previous control observation of £391k. As this moved the surplus in 2019/20 to a deficit position, the impact was considered material and led to a prior period adjustment in the accounts.

Therefore, for best practice, we would encourage the finance team to post entries to the GL following appropriate level of review and approvals in a timely manner.



Audit Fees

Our fee for 2020/21 is in line with the audit fee reported in our Annual Results Report presented to the Audit Committee on 22 March 2022.

	Final Fee 2020/21	Planned Fee 2020/21	Final Fee 2019/20
Description	£	£	£
Audit Scale Fee – Code work	41,469	41,469	41,469
Proposed scale fee rebasing (Note 1)	30,625	Note 1	
Scale fee variation – e.g. prior year adjustment, property valuation errors, Covid-19 grants errors (Note 2)	13,212	Note 2	31,181
Impact of the New Code of Audit Practice, and revised ISA540 (Note 3)	9,948	Note 3	n/a
Objection to the accounts	5,325	-	n/a
Total Code audit fee	100,579	65,969	72,650
Non-audit services (Housing Benefits)	11,758	11,758	14,258
Total fees	112,337	77,727	86,908

Notes:

- 1. In our prior year Annual Audit Letter we set out our rationale for a rebasing the audit fee to address changes in professional and regulatory requirements, and the associated impact on audit procedures. PSAA determined the scale fee for 2019/20, but have not indicated whether this was recurrent. Therefore, as these issues have not changed, we repeat our submission for a rebasing of the scale fee for 2020/21. The inputs are unchanged, but the value increases by 25% as PSAA fee variation rates have increased by that amount.
- 2. A scale fee variation is proposed for specific issues relating to the 2020/21 audit, including prior year adjustments, differences and errors in relation to property valuations, errors in Covid-19 grants accounting. The variation for 2020/21 will be completed, discussed with management and submitted to PSAA at the completion of the audit.
- PSAA have written to all local authorities to indicate a range of fees for the impact of the 2020 Code of Audit
 Practice and new auditing standards. We have calculated the impact for Hat DC to be at the lower end of PSAA's
 ranges.

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AUDIT COMMITTEE

DATE OF MEETING: 24 MAY 2022

TITLE OF REPORT: INTERNAL AUDIT PROGRESS REPORT Q4

Report of: Internal Audit Manager

Cabinet Member: Councillor James Radley, Finance and Corporate

Services

1. PURPOSE OF REPORT

1.1 To update the Committee on Internal Audit work carried out between March and May 2022.

2. OFFICER RECOMMENDATION

2.1 That the Internal Audit work completed between March 2022 and May 2022 be noted.

3. BACKGROUND

- 3.1 Internal Audit prepares a risk-based plan which identifies the work that is to be carried out during the year. The plan was approved by the Committee in March 2021. The plan for 2021/22 is a reduced one, considering the impact of COVID-19 has had on internal audit work and the reduction in Internal Audit resource.
- 3.2 Three audit reports were issued between March 2022 and May 2022:
 - Payroll Appendix A
 - Treasury Management Appendix B
 - Waste Management Appendix C
- 3.3 Six audits are currently in progress:
 - Financial Resilience
 - Council Tax/NNDR (Local Taxation)
 - Shapley Heath
 - Main Accounting
 - Housing Benefit
 - Planning Performance

All audits in the 2021/2022 audit plan have now commenced.

3.4 Progress on internal audit reviews is shown below:

Audit	Planned	Scope agreed	Fieldwork in progress	Fieldwork complete	Draft report Issued	Expected completion dates	Completed	Notes
Housing Benefit	Carry over from 2020/21	Yes	Yes	Yes	Yes	n/a	Report Issued August 2021	
Complaints	Q1	Yes	Yes	Yes	Yes	n/a	Report Issued October 2021	
Fraud Risk Assessment	Q1	Yes	Yes	Yes	Yes	n/a	Report Issued November 21	
IT Controls	Q1	Yes	Yes	Yes	Yes	Dec 2021	Report Issued February 2022	
Waste Management	Q2	Yes	Yes	Yes	Yes	May 2022	Report Issued May 2022	
Grounds Maintenance /Street Cleaning	Q2	Yes	Yes	Yes	Yes	Jan 2022	Report Issued February 2022	
Financial Resilience	Q2	Yes	Yes	Yes		June 2022		Draft being reviewed
Accounts Payable	Q2	Yes	Yes	Yes	Yes	Dec 2021	Report Issued January 2022	

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Accounts Receivable	Q2	Yes	Yes	Yes	Yes	Dec 2021	Report Issued January 2022	
Main Accounting	Q2	Yes	Yes			July 2021		
Disabled Facilities grants	Q2	Yes	Yes	Yes	Yes	n/a	Report issued November 21	
Planning Performance	Q2	Yes	Yes			July 2022		
Council Tax and NNDR	Q3	Yes	Yes	Yes	Yes	July 2022		Further testing being undertaken
Treasury Management	Q4	Yes	Yes	Yes		Mar 2022	Report Issued April 2022	
Payroll	Q4	Yes	Yes	Yes	Yes	Mar 2022	Report Issued May 2022	
Housing Benefit	Q4	Yes	Yes			July 2022		
Shapley Heath	Q4	Yes	Yes	Yes		May 2022		Testing near completion Verbal update to be given at Audit Committee May 2022

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Internal Audit Progress Report May 2022

Procurement	Q1 22-23	Yes			
Fleet Pond	Q1 22-23	Yes			
Management					

4. CONSIDERATIONS

4.1 Planned Work

During the period between March 2022 and May 2022 three reports were issued for:

- Payroll
- Treasury Management
- Waste Management

4.2 Unplanned Work

Resources from Internal Audit continue to be used to complete business grant post assurance checks and to complete the Test and Trace reconciliation and post assurance work.

4.3 Follow Ups

All high-risk recommendations are followed up with the responsible officer to ensure that the proposed action has been taken.

Progress of any actions taken are documented. If no progress has been made this will then be escalated.

A summary of the follow up work is shown below.

Audit	Issue	Responsible	Due date	Status
Disabled Facilities Grant	The disabled facilities grant process is not complying with the council's contract standing orders.	Officer Head of Community	March 2022	
				on the procurement issue.

4.4 **FRAUD**

- 4.5 Meetings continue to take place with officers to ensure that fraud risks are captured on the service risk registers.
- 4.6 Post Assurance checks for all LRSG grants paid November 2020 to March 2021 and Omicron Hospitality and Leisure grants are now complete and reported to Business, Energy & Industrial Strategy (BEIS).
- 4.7 Post Assurance checks for the Restart scheme are currently being worked on and will be submitted in line with the prescribed deadline.
- 4.8 Post Assurance checks will be completed on the Additional Restrictions Scheme (ARG) once guidance from BEIS is received.
- 4.9 Fraud cases referred to the DWP continue to be monitored by the Capita Fraud team.
- 4.10 One allegation of Fraud has recently been investigated. No further action is expected from the final report.

5. RISK MANAGEMENT

- 5.1 Internal Audit continue to facilitate the risk management process to ensure there are effective arrangements in place to manage risk.
- 5.2 Heads of Service have been reminded to ensure that any risks identified in the 2022/23 service plans are added to the service risk registers.
- 5.3 Key service risks are reported to service panels and summaries of these reports are reported to Overview & Scrutiny.

6. FINANCIAL AND RESOURCE IMPLICATIONS

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

Contact: Joanne Innes, 01252 774147 - joanne.innes@hart.gov.uk

APPENDICES

Appendix A – Payroll

Appendix B –Treasury Management

Appendix C – Waste Management



INTERNAL AUDIT REPORT				
Area of Review	Payroll			
Contact Officer	Audit Manager			
Date	May2022			
Version	Final V1			

Final Report May 2022

1. BACKGROUND

This audit has been undertaken as part of the approved Annual Internal Audit Plan 2021/22, and in accordance with the Audit Terms of Reference.

Responsibility for the payroll function lies with the Head of Corporate Services.

2. SCOPE OF THE REVIEW

The audit approach has been to review processes surrounding the control objectives stated below, perform walkthrough testing, where appropriate, assess the effectiveness of internal controls and ensure risk is managed effectively.

3. CONTROL OBJECTIVES

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

Control Objectives

- To confirm that only bona fide employees are paid the correct amount at the right time, in line with legislation and financial regulations
- To confirm that the key control of reconciliations takes place promptly and in accordance with External Audit requirements.
- To confirm that the administration of the service is undertaken in line with legislative requirements.

4. AUDIT APPROACH

Our audit approach to this review has been to:

- Obtain and understand the relevant processes through discussions with key personnel, review of systems documentation and perform walkthrough tests, where appropriate.
- Identify the key risks within the function.
- Evaluate and test the effectiveness of the controls in place to address these risks.
- This review has been undertaken in compliance with the Internal Audit Public Sector Standards 2017.

5. OPINION ON CONTROL FRAMEWORK

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

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

The audit confirmed that employees are paid accurately, efficiently on time and correctly in line with legislation and financial regulations. Payroll reports including deviation reports, are produced each month so that Finance are able to access them to check when they undertake reconciliations prior to authorising the payroll.

Internal Audit can confirm that the administration of the service is undertaken in line with legislative requirements. It is pleasing to report that this has resulted in the audit opinion improving from limited that was awarded in the previous audit report, to satisfactory.

However, there are some opportunities for improvement that need to be considered, as summarised below:

- There is no stipulation in the Essential Car User Allowance Policy that the essential car user allowance will be paid pro-rata in the month of leaving, dependant on the date of leaving.
- There is no regular reconciliation between the establishment list and payslips undertaken.
- Users who have "amend" access level to payroll records can undertake amendments on their own payroll records.
- There are some policies held on Sharepoint where their review date has passed.
- The Service Description document has not been followed in that there is no request to Zellis to evidence storage of back-ups of HR and Payroll data outside the primary data centres.
- The Business Continuity Plan is still not fully up to date.
- The DBS framework is currently work in progress.
- The DPIA does not record who accepted or overruled on the DPO advice and whether there has been a review of consultation responses.
- There were personnel folders found in Sharepoint confidential folders that contained information on transferred staff and one folder was found to be titled up incorrectly.

Final Report May 2022

This report seeks to highlight some of the main issues and assist in the development of an improvement plan. There are 7 medium and 1 low risk findings with recommendations identified in this report.

6. SUMMARY OF IDENTIFIED RISKS AND RECOMMENDATIONS TO BE AGREED WITH MANAGEMENT

	Risk		Assessment		Mitigation	Responsible Officer	Target Date
1	There is a risk of a financial loss to the council if the essential car user allowance is paid in full for all leavers regardless of when they leave within the month of leaving.	Through testing of leavers, it was established that the full amount of essential car user allowance was paid regardless of when the leaver's last day of service was. In addition, there is nothing within the essential car user policy that states that the allowance will be paid prorata for the month that an employee leaves.		be given for the Essential Car User Allowance Policy to include a stipulation that the essential car user allowance will	Accept the documentation around the policy is insufficient. HR team will benchmark with other councils and review before making a recommendation to Leadership team in order to update the policy.	Procurement Manager	September 2022
2	Fraudulent employees may be created.	There is no regular reconciliation between the establishment list and payslips undertaken.		regular/periodic recorded	Accepted, the informal checking to be replaced by formal process as part of monthly payroll checklist.	Contracts and Procurement Manager.	May 2022

	amend records for their own gain resulting in a financial loss to the	The users who have access to payroll records and can make amendments can amend on their own records.	There should be a preventative control in place that restricts this access, for example, specific restricted access to these individual accounts or a report instantly produced once an amendment is made on that individuals account to an independent officer.	system-based restrictions. If these are not feasible, a regular (monthly) exceptions report which flags admin changes on their own account will be explored to assist with reducing the risk.	Contracts and Procurement Manager.	June 2022
4	date/incorrect procedures and	There are some policies held on SharePoint where their review date has passed.	Policies and procedures should be reviewed in accordance with the detailed review dates, including how to title personnel folders and files.	This is an ongoing task for HR team to work through remaining policies requiring review.		February 2023
	constructed in the event of disaster which could have an effect on Business Continuity.	There is no request to Zellis to evidence that back ups of HR and Payroll data is undertaken and that they are stored outside the primary data centres as per the Service Description document.	There should be a periodic request to Zellis to obtain evidence that back ups of HR and payroll data has taken place and to get confirmation as to where they are being stored.	recommendation but useful to ensure these controls take place.	Contracts and Procurement Manager.	May 2022

6	There is a risk to business continuity if the Business Continuity Plan is not complete and up to date.	The HR section of the Business Continuity Plan is still in the process of being updated.	Medium	The HR section of the Business Continuity Plan should be complete and up to date.		Contracts and Procurement Manager.	July 2022
7	DBS legislation may not be being complied with.	The DBS framework process has started and an email was sent by the Contracts and Procurement Manager on the 16/01/22 asking for information from all Heads of Service for those posts that require DBS clearance. This is as a result that DBS guidance revolves around roles that specifically require DBS checks to take place.	Medium	The DBS framework is in the process of being completed.	legal delays on contract	Contracts and Procurement Manager.	May 2022
8	There is a small risk that GDPR regulations may not be complied with.	The details of who accepted or overruled on the DPO advice received and whether the consultation responses have been reviewed are not recorded in the DPIA	Low	The details of who accepted or overruled on the DPO advice received and whether the consultation responses have been	,	Contracts and Procurement Manager.	May 2022

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		reviewed should be recorded in the DPIA.		

Final Report May 2022

That **high risk recommendations** made in the **2020/21** audit report have been addressed.

The 2020/21 Internal Audit Report identified 9 risks/issues, of which 4 were high status. The current position of the high status risks/issues is that 3 have been implemented and 1 is in progress and requires follow up in the 2022/23 internal audit. The current details of each high risk/issue is detailed below:

2020/21 MAP Report Ref	Risk/Issue	Management Response	Details of Current Position Risk/ Issue	Current Status of Risk/Issue
3	The council is likely to not be fully complying with GDPR requirements.	A new Data Protection Impact Assessment (DPIA) has been completed. This includes a full risk assessment and action plan to resolve any gaps.	There is an updated DPIA in place which was updated on 08/11/21. The DPIA includes the following steps: • identify, • describe the processing, consultation, • necessity and proportionality, • identify and assess risks, • identify measures to mitigate risks, • sign off and record outcomes. There is no details in the latest DPIA of whether the DPO advice has been accepted or overruled and who by and whether the consultation responses have been reviewed and by who	Implemented but additional low level risk/issue identified in that: • the details of who accepted or overruled on the DPO advice received and whether the consultation responses have been reviewed should be recorded in the DPIA.
6	Resilience issues for payroll processing needs to be reviewed.	1. Will be partly addressed once Business Grant Schemes are finished. 2. Upgrade to cloud version of Resource link will also	Resilience issues addressed by a number of staff being trained on the Zellis system, plus self service and also the Business Continuity Plan is being worked on. In addition, the Business Partner HR stated that there are a number of employees who can run the	Implemented

		help resolve access issues and reliance on VPN.	payroll if need be. These are HR Business Partner, HR Business Officer, Contracts and Procurement Manager and the Client Officer Finance, Revenues and Benefits. The last officer listed is currently working heavily on the Covid Business Grants work but this will finish at the end in early 2022/23 financial year.	
ω	The Starters and Leavers Framework needs to be fully reviewed to ensure the process is consistently applied.	We are planning to use the Corporate Services Helpdesk function to manage starters and leavers process. As an interim The HR Business Partner is reminding managers are if information on starters and leavers is missing	There is a starters and leavers process in place that alerts the HR and payroll service automatically via the IT controls eform that has been set up and actioned in 2021.	Implemented
9	The DBS framework needs to be put in place	During the starters testing ensure that there is an appropriate policy in place with regards to DBS and that this is followed.	The DBS framework process has started and an email was sent on the 16/01/22 asking for information from all Heads of Service for those posts that require DBS clearance. This is as a result that DBS guidance revolves around roles that specifically require DBS checks to take place.	This is in progress and should be followed up in the 2022/23 Payroll audit.

Audit: Treasury Management

Final report: April 2022



INTERNAL AUDIT REPORT				
Area of Review	Treasury Management			
Contact Officer	Audit Manager			
Date	20 April 2022			
Version	Final			

Final report: April 2022

1. BACKGROUND

This audit has been undertaken as part of the approved Annual Internal Audit Plan 2021/22, and in accordance with the Audit Terms of Reference.

The Treasury Management function of Hart District Council (HDC) is undertaken by staff at Mendip District Council (MDC). The day-to-day Treasury Management activities, such as the production of daily cash flows, performance of bank reconciliations and research around potential investments is performed by staff from MDC, with them working across the organisations to ensure that Treasury Management procedures are fulfilled at HDC.

2. SCOPE OF THE REVIEW

The audit approach has been to review processes surrounding the control objectives stated below, perform walkthrough testing, where appropriate, assess the effectiveness of internal controls and ensure risk is managed effectively.

3. CONTROL OBJECTIVES

The scope of this review has encompassed the following three control objectives listed below and the 8 scope objectives summarised in section 7 Summary of Findings.

Control Objectives

- To confirm that governance controls are in place within Treasury Management and that they are operating effectively.
- 2 To confirm that cash flow, loans and investments are effectively managed.
- To confirm that the key control of reconciliations takes place promptly and in accordance with External Audit requirements.

4. AUDIT APPROACH

Our audit approach to this review has been to:

- Obtain and understand the relevant processes through discussions with key personnel, review of systems documentation and perform walkthrough tests, where appropriate.
- Identify the key risks within the function.
- Evaluate and test the effectiveness of the controls in place to address these risks.
- This review has been undertaken in compliance with the Internal Audit Public Sector Standards 2017.

Final report: April 2022

5. OPINION ON CONTROL FRAMEWORK

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

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

Internal Audit consider that there is a good system of management and operational controls in place for Treasury Management. These include appropriate review and authorisation of Treasury Management processes with evidence of a clear audit trail. However, there are some opportunities for improvement that need to be considered, as summarised below:

- There is no management check undertaken on the Treasury Management Activity Record.
- Reconciliations between the general ledger (Integra), the loan schedules, and the treasury management records are not signed off as reviewed
- SharePoint, where the Treasury Management documentation is stored, has access listed to officers that are no longer work for HDC or MDC.

This report seeks to highlight some of the main issues and assist in the development of an improvement plan. There are 3 medium risk findings with recommendations identified in this report.

Final report: April 2022

6. SUMMARY OF IDENTIFIED RISKS AND RECOMMENDATIONS TO BE AGREED WITH MANAGEMENT

	Risk		Risk Assessment		3	Responsible Officer	Target Date
	updates the daily movement of cash on he Treasury Management Activity excel record makes a deliberate/ accidental error, then it will go undetected if there is no management check. This may lead to ncreased costs and/or osses.	Treasury Management Activity excel record is updated daily with the movement of cash. This is completed by the MDC's Financial Accountant or Assistant Accountant (and stored on the shared drive for ease of access for all relevant staff. Internal Audit reviewed this record and found it to be completed daily for the period 31 March 2021 to 8 March 2022. However, there is no management check undertaken of this record to ensure accuracy.		of the Treasury Management Activity excel record of the daily movement of cash to ensure it has been calculated correctly.	cashflows are reviewed weekly in Cashflow meetings with treasury		Actioned Immediately
1 1 2 1 1 2 1 2 1	Management reconciliations are not reviewed, deliberate/accidental errors may not be identified, which	The reconciliations between the general ledger (Integra), the loan schedules, and the treasury management records were undertaken but not signed off as reviewed.		All reconciliations should be reviewed and signed off.		Chief Accountant	Actioned Immediately

Final report: April 2022

	reconciliations will not be in place which may ead to a qualified external audit opinion.				submission (Deputy S151 Officer). Since January 2022 the investment return is also reviewed monthly in addition to quarterly despite quarterly being adequate.	
!	may have access to the system, compromising system integrity.	Internal Audit obtained a report as at 7 March 2022, of officers that have access to Treasury Management documentation on SharePoint. It was found that 2 HDC officers and 4 MDC officers are no longer employed by the Councils. The report also listed access to Accountancy Hart that may include officers that do not need to access this work area.	Medium	officers that have access to Treasury Management documentation stored on SharePoint should be undertaken and access removed if they are not current and/or invalid. Thereafter, a process should be established to ensure that officers that are no longer employed by	current officers have access to SharePoint. The officers that are no longer employed by HDC and MDC have been removed.	Actioned Immediately

Audit: Waste Management Final Report - May 2022



INTERNAL AUDIT REPORT			
Area of Review	Waste Management		
Contact Officer	Internal Audit Manager		
Date	May 2022		
Version	Final		

BACKGROUND

1.

This audit has been undertaken as part of the approved Annual Internal Audit Plan 2021/22, and in accordance with the Audit Terms of Reference.

Hart District Council (HDC) and Basingstoke & Deane Borough Council (BDBC) entered into an Inter Authority Agreement (IAA) for Waste Collection and Recycling Services in February 2012. A new IAA, that included a draft Service Level Agreement (SLA), was entered into on 28 May 2021.

2. SCOPE OF THE REVIEW

The audit approach has been to review processes surrounding the control objectives stated below, perform walkthrough testing, where appropriate, assess the effectiveness of internal controls and ensure risk is managed effectively.

3. CONTROL OBJECTIVES

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

Control Objectives

- To ensure that the waste management governance arrangements are adequate, documented and being adhered to and that there are appropriate mechanisms in place to capture queries/complaints.
- To ensure that there are Key Performance Indicators in place in the waste contract and that they are reported in accordance with the details shown in the contractual documents.

4. AUDIT APPROACH

Our audit approach to this review has been to:

- Obtain and understand the relevant processes through discussions with key personnel, review of systems documentation and perform walkthrough tests, where appropriate.
- Identify the key risks within the function.
- Evaluate and test the effectiveness of the controls in place to address these risks.
- This review has been undertaken in compliance with the Internal Audit Public Sector Standards 2017.

5. OPINION ON CONTROL FRAMEWORK

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

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

The level of assurance of this review is Satisfactory. There are some key findings on which this level of assurance is based, as follows:

- At the time of the Internal Audit in December 2021, there was no signed, agreed SLA between HDC and BDBC in place for Waste Management, only an unsigned draft for the provisions of the Joint Waste Client Team Function (JWCT).
- There is no formal record kept of agreed outcomes and actions for the monthly meetings that the BDBC's Waste & Recycling Manager holds with the HDC's Waste Monitoring Officer and HDC's joint Chief Executive.
- Performance reports, including Key Performance Indicators (KPIs), are not being reported as stated in the draft SLA.
- The JGG are not monitoring the as specified in clause 6.1 and 10 of the Renewal Deed for 1 April 2021 to 30 September 2026 between HDC and BDBC for provision of Grounds Maintenance and Street Cleansing (This issue and associated recommendation are also included in the Grounds Maintenance and Street Cleansing Services Internal Audit report dated February 2022.

This report seeks to highlight some of the key issues and assist in the development of an improvement plan. There are 4 medium findings with recommendations identified in this report.

6. SUMMARY OF IDENTIFIED RISKS AND RECOMMENDATIONS TO BE AGREED WITH MANAGEMENT

				Assess ment	Recommendation	Mitigation		Date
	s F i	signed Service Level Agreement (SLA) in place may lead to ncreased risk if	At the time of the Internal Audit in December 2021, there was a draft SLA for the JWCT that is responsible for the pursuant of the Waste Management Contractor.		It is good practice to have a signed SLA in place for Waste Management between HDC and BDBC	The absence of a signed SLA has been raised at JGG meetings and will be raised with the Chief Executive of Basingstoke and Deane Borough Council	Executive	June 2022
	s G G	shown in the National Audit Office's "The good practice contract management framework" will not be followed.	The Sports & Leisure Manager undertakes the role of HDC's Monitoring Officer for Waste and receives monthly appendix 3, the HDC's KPI (Key Performance Indicators) sheets. The preceding months KPIs are discussed at a monthly meeting between the HDC's Waste Monitoring Officer and BDBC's Waste & Recycling Manager any issues would be brought to the attention of HDC's CEO and Head of Corporate Services.		A formal record of the the monthly KPI monitoring meetings held between HDC's Waste Monitoring Officer and BDBC's Waste & Recycling Manager should be prepared with agreed outcomes and actions.	emailed to JCEO and Head of	Sports & Leisure Manager	May 2022
· ;	i k l	Performance reports ncluding KPIs not being reported may ead to poor quality work and a decline in service delivery not being identified.	Internal Audit reviewed performance reports including KPIs received by HDC's Waste Monitoring Officer (the Sports & Leisure Manager) and those received by JGG to the draft SLA version 13 dated 25/11/2021. It was found that the SLA clauses 14 and 15 differs from the actual reporting, including with regards		Actual performance reporting including the monitoring of KPIs should follow the SLA particularly regarding the recipient and frequency of reports.	included in the monthly report as		May 2022

Audit: Waste Management

Final Report - May 2022

	to the recipient and frequency of reporting. Particularly, in that the HDC's Waste Monitoring Officer receives the KPIs in appendix 3 but does not receive reports in the following areas: • the monthly Client and Contractor report, so there would not be any monitoring of KPI for Health and Safety matters, number of incidents. • Time sheets showing hours worked on Hart service for client team.		manager has been reminded	Sports & Leisure Manager	Complete
shown in the National Audit Office's "The good practice contract management framework" will not be followed.	Monthly 1 to 1 meetings were held between BDBC's Waste and Recycling Manager and HDC's joint Chief Executive for Nov 21 to Jan 22, where handwritten notes were taken and are held and meetings planned for the next two months, Feb and March 2022.	notes held between	areas of concern are noted and normally followed up by an email	Executive	May 2022

AUDIT COMMITTEE

DATE OF MEETING: 24 MAY 2022

TITLE OF REPORT: ANNUAL INTERNAL AUDIT REPORT 2021/22

Report of: Audit Manager

Cabinet Member: Councillor James Radley, Finance and Corporate

Services

1 PURPOSE OF REPORT

The purpose of this report is to inform the Committee of the Audit Manager's annual audit opinion on the effectiveness of the internal control framework for 2021/22

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 2021/22 is reported in **Appendix A**

4 FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report

Contact: Joanne Innes Ext 4147 – joanne.innes@hart.gov.uk

APPENDICES:

Appendix A – Annual Internal Audit Opinion 2021/22

ANNUAL INTERNAL AUDIT REPORT 2021/22



Report By: Joanne Innes

Internal Audit Manager

Date: 11 May 2022

1. Purpose of the Annual Internal Audit Report

- 1.1 This is the annual report of the Internal Audit Manager to the Audit Committee as required by the Public Sector Internal Audit Standards (PSIAS). It covers the period 1 April 2021 to 31 March 2022.
- 1.2 In addition to the report including the Internal Audit Manager's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control environment. It also provides information on:
 - the delivery of the annual audit plan
 - audit reports issued and issues of concern
 - implementation of agreed actions
 - Internal Audit's performance
 - the quality assessment and improvement programme

2. Overall opinion

- 2.1 Based upon work undertaken it is my opinion that the overall adequacy and effectiveness of the Council's framework of governance, risk management and control as of 31 March 2022 is **Satisfactory**.
- 2.2 However, the opinion excludes any view on the effectiveness of the key controls associated with a number of financial systems Council Tax/NNDR, Housing benefits and Main Accounting due to work in that area not being completed at the time of preparing this opinion statement.
- 2.3 The overall opinion of Satisfactory is unchanged from last year
- 2.4 Assurance can never be absolute. The audit opinion reflects the Internal Audit Managers view on the current state of the internal control environment across the Council and provides the Committee with an opinion for inclusion in the Annual Governance Statement (AGS).

The Internal Audit Manager will inform the Audit Committee if they consider that significant changes have occurred to the internal control environment prior to the Committee approving the AGS.

3 Delivery of the annual audit

- 3.1 The risk based Internal Audit Plan for 2021/22 was approved by the Audit Committee in March 2021. It included 15 internal audit reviews together with time allowances to undertake amongst others, follow-up reviews, fraud related work, oversight of the risk management process and delivery of the annual governance statement.
- 3.2 The March 2021 Audit Committee report also explained that the plan had been prepared on the assumption that internal audit involvement with the COVID Business Grants scheme would be reduced. That assumption was incorrect, and work continued delivering further business grants and

- facilitating test & trace work. Furthermore, there were additional requirements for pre and post assurance work for business grants and test & trace.
- 3.3 In December 2022 Audit Committee requested and additional audit to review the Shapley Heath Garden Community project. This work is currently underway and being delivered by and external company.
- 3.4 Only one review has been completed in house, the remainder were undertaken by internal auditors employed by Basingstoke and Deane BC and Wokingham BC.

4 Audit Reports issued and issues of concern

Audit reports issued are listed in the table below. The Audit Committee have received copies of all the issued reports listed below.

Area of Review	Opinion Provided
Audit Carry over from 2020-21	
Housing Benefit 2020-21	Limited
Treasury Management 2020-21	Satisfactory
Audit Reports issued 2021-22	
Treasury Management	Substantial
Accounts Payable	Satisfactory
Accounts Receivable	Satisfactory
Payroll	Satisfactory
Waste Management	Satisfactory
Grounds Maintenance & Street Cleaning	Satisfactory
IT Controls	Satisfactory
Complaints	Limited
Disabled Facilities Grants	Limited
Fraud Risk Assessment	No Overall Opinion Given
Cash/Income Management	This audit was not completed as a
	separate audit and was
	incorporated in to testing in other
	financial audits
Housing Benefits	In progress
Planning Performance	In progress
Financial Resilience	Draft
Council Tax/NNDR (Local Taxation)	In progress
Main Accounting	In progress
Shapley Health	In progress

Note that Grounds Maintenance/Street Cleaning and Waste were issued as two separate reports

4.1 The financial resilience draft audit report is reporting a satisfactory level of assurance and verbal feedback for Local Taxation indicates a satisfactory level of control is in place.

- 4.2 Fieldwork is in progress on housing benefit, planning performance and main accounting. Verbal updates do not currently indicate that there are any significant control weaknesses in these areas. Final reports for these reviews will be reported to audit committee in due course.
- 4.3 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.

- 4.4 In addition to the reports listed above, the Internal Audit Manager has been able to obtain assurance over the effectiveness of the internal control environment through their involvement in the following areas.
 - Completed Pre and Post Payment checks for National Restrictions Support Grant, Restart Grants, Omicron and additional Restrictions grant schemes. These checks identified 11 attempted grant frauds in the Restart scheme, 1 of these was paid.
 - Facilitating the process for updating of the Corporate Risk Register and its reporting to the Overview & Scrutiny Committee.
 - Assisted Service Managers to update their service risk registers ensuring that the risks from the service plans were reflected
 - Reviewed the effectiveness of the risk management framework (satisfactory opinion) and reported the findings to Audit Committee in March 2022.
 - At the request of the Audit Committee, and when appropriate to the audit, undertook reviews that assessed the quality of performance data reported to the Overview & Scrutiny Committee.
 - Reviewed and updated the Whistleblowing Policy prior to its approval by the Audit Committee in March 2022.

- Reviewed and updated the Local Code of Corporate Governance, 2020/21 annual governance statement (AGS) and the progress made by senior management to introduce the improvements identified.
- Took part in the complaint project task and finish group to assist with the delivery of the new complaints policy.
- Delivered mandatory Fraud Awareness and Cyber Security training for all employees and to new members during 2021/22
- Internal Audit will always consider the risk of fraud in all reviews that are carried out.
- Being the key contact for managing the follow up of data matches for grants, single person discounts identified as part of the National Fraud Initiative. Audit committee are informed of progress.
- 4.5 Housing Benefit fraud and single person discount fraud have been identified during 2021/22, much of the single person discount fraud found was the result of a full review of single person discount recipients. None of these were found to be material and adequate controls are in place to mitigation potential frauds.
- 4.6 One suspected fraud has been investigated in the authority which was not substantiated.
- 4.7 During 2021/22 a Fraud Risk Assessment was carried out. The purpose of the assessment was to review the effectiveness of the internal control framework in place to manage the risk of fraud. A number of actions were raised and are currently being worked on. It is deemed that there is adequate internal control in place during 2021/22 to provide reasonable assurance that fraud risks are being managed.
- 4.8 There has been one substantial assurance, six satisfactory assurance and two limited assurance reports.
- 4.9 Two high risk recommendations were raised in 2021-22; These were raised in the IT controls audit and the Disabled Facilities Grants audit and are detailed below.

Area of Review	Reasons for Limited Opinion
Disabled Facilities Grants	The disabled facilities grant process is not complying with the Council's standing orders
IT Controls	The responsibility for the maintenance and administration of three key IT systems has been devolved to Services rather than the central IT team. It was found that there are no clearly defined responsibilities for Service managers to adhere to in respect of expected IT access controls, security management or cyber security.

5 Implementation of agreed actions

- 5.1 Follow up reviews have been completed on high risk actions and progress is monitored.
- 5.2 Audit committee are advised of the follow up of high-risk recommendations
- 5.3 Follow up's are scheduled to be reviewed each quarter.

6 The quality assessment and improvement programme

- 6.1 The PSIAS require the Internal Audit Manager to develop and maintain a quality assurance and improvement programme (QAIP) which needs to be sufficiently comprehensive to encompass all aspects of internal audits operation and management, and which once in place, should allow them to provide reasonable assurance that internal audit:
 - Performs its work in accordance with its Charter and in conformance with the PSIAS.
 - Operates in an effective and efficient manner.
 - Is perceived as adding value and continuously improving.
 - Furthermore, PSIAS includes a requirement for periodic self-assessments and external assessments at least once every five years by a qualified, independent assessor from outside the Council.
- 6.2 Due to their involvement with managing COVID related issues, the Internal Audit Manager has not had the opportunity to complete a self-assessment to evaluate whether or not Internal Audit is performing in conformance with PSIAS or not.
- 6.3 Internal Audit do not have a formal QAIP document. This will be addressed during 2022/23 and a QAIP will be submitted to the Audit Committee for approval. A number of the processes and procedures that are associated with a QAIP are in place, such as:
 - development of a risk based audit plan
 - structured planning and fieldwork working papers which are reviewed at key stages
 - the formal review and sign off to both draft and final audit reports
 - regular follow-up reviews of agreed recommendations
 - regular reporting to the Audit Committee of progress in delivering the internal audit plan.
- 6.4 As required by PSIAS the Internal Audit Manager reports functionally to the Audit Committee and maintains organisational independence. They have had no constraints placed upon them in respect of determining overall audit coverage, audit methodology, the delivery of the audit plan or proposing actions for improvement or forming opinions on individual audit reports issued.

- 6.5 As the majority of internal audit reviews conducted during 2021/22 have been undertaken by internal auditors from Basingstoke and Deane and Wokingham it is appropriate to consider their compliance with PSIAS.
- 6.6 Taking all of the above together, the Audit Manager is of the opinion that whilst a formal documented QAIP is not in place there is sufficient evidence to suggest that internal audit is being delivered in 'partial conformance' with the PSIAS, rather than non-conformance.

AUDIT COMMITTEE

DATE OF MEETING: 24 May 2022

TITLE OF REPORT: THE PROVISION OF INTERNAL AUDIT

Report of: Head of Corporate Services and S.151 Officer

Cabinet Portfolio: Councillor James Radley, Finance and Corporate

Services

Key Decision No

1 PURPOSE OF REPORT

1.1 The purpose of this report is to seek agreement regarding future delivery of internal audit services.

2 OFFICER RECOMMENDATION

2.1 The procurement process is noted by the Committee.

3 BACKGROUND

- 3.1 Over recent years, Hart District Council's internal audit work has been carried out by Wokingham Borough Council and Basingstoke and Deane District Council's Internal Audit Team and co-ordinated by the Hart District Council Internal Audit Manager.
- 3.2 The Council has made its decision as part of the Tier 2 Savings, Council has made a decision whereby all audit work is procured through one supplier.
- 3.3 Officers are engaging with Public Sector partners and Internal Audit Partnerships to commence procurement of a single provider from 1st April 2023.
- 3.4 We have an Interim Audit Manager in place to co-ordinate and supervise the current internal audit workload.
- 3.5 The Committee will be updated with progress as the procurement process completes.

4 EQUALITIES

An equalities impact assessment is not required.

5 CLIMATE CHANGE IMPLICATIONS

There are no known climate change implications of this report currently.

6 ACTION

The Audit Committee are kept updated of how the procurement progresses.

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