

# Public Document Pack



## NOTICE OF MEETING

<b>Meeting:</b>	<b>Audit Committee</b>
<b>Date and Time:</b>	<b>Tuesday 24 October 2023 7.00 pm</b>
<b>Place:</b>	<b>Council Chamber</b>
<b>Enquiries to:</b>	<b>Committee Services committeeservices@hart.gov.uk</b>
<b>Members:</b>	<b>Axam (Chairman), Engström (Vice-Chairman), Blewett, Davies, Hale, Southern and Thomas</b>

Chief Executive

CIVIC OFFICES, HARLINGTON WAY  
FLEET, HAMPSHIRE GU51 4AE

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## 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 MINUTES OF THE PREVIOUS MEETING (Pages 3 - 5)**

The minutes of the meeting held on 25 July 2023 are attached for confirmation and signature as a current record.

## **2 APOLOGIES FOR ABSENCE**

To receive any apologies for absence from Members\*.

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

## **3 DECLARATIONS OF INTEREST**

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

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

## **4 CHAIRMAN'S ANNOUNCEMENTS**

## **5 EXTERNAL AUDITOR'S ANNUAL REPORT 2021/22 (Pages 6 - 28)**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year.

### **RECOMMENDATION**

To receive the External Auditor's Annual Report 2021/22.

## **6 INTERNAL AUDIT PROGRESS REPORT QTR 2, 2023-24 (Pages 29 - 40)**

To review and note the report on the work undertaken by Internal Audit at each of their meetings.

## **7 CONSULTATION ON 2023/24 SCALE OF AUDIT FEES (Pages 41 - 57)**

To review the Consultation on 2023/24 Scale of Audit Fees.

## **8 AUDIT COMMITTEE WORK PROGRAMME 2023/2024 (Pages 58 - 60)**

To consider the Audit Committee Work Programme.

**Date of Publication: Monday, 16 October 2023**

## **AUDIT COMMITTEE**

**Date and Time:** Tuesday 25 July 2023 at 7.00 pm

**Place:** Council Chamber

**Present:**

Axam (Chairman), Blewett, Davies, Engström, Hale and Southern

**In attendance:**

Neil Pitman, Southern Internal Audit Partnership  
Kevin Suter, Ernst & Young

**Officers:**

Graeme Clark, Executive Director, Corporate Services & S151 Officer  
Emma Evans, Committee and Member Services Officer

**1 ELECTION OF VICE CHAIRMAN**

Councillor Engström was elected as Vice-Chairman for the year 2023/24.

**2 MINUTES OF THE PREVIOUS MEETING**

The minutes of 28 March 2023 were agreed and confirmed and signed as a correct record.

**3 APOLOGIES FOR ABSENCE**

No apologies received.

**4 DECLARATIONS OF INTEREST**

No declarations made.

**5 CHAIRMAN'S ANNOUNCEMENTS**

The Chairman announced that he had attended a Public Sector Audit Appointments webinar where national concerns around the backlog in local authority audits was discussed. Considering this, Mr Suter from Ernst and Young (EY) has been invited to attend to discuss the position nationally and in relation to Hart's accounts.

Cllr Davies arrived at 19.06.

## 6 UPDATE ON EXTERNAL AUDIT

Members received a verbal update on external audit, both the position nationally and in relation to Hart's accounts. Mr Suter (EY) firstly outlined the impact locally. Progress has been made on the 2021/2022 audit and bar some minor clarifications will be completed by mid-August. An unqualified opinion on the accounts is expected and no value for money significant weaknesses have been identified.

Mr Clark stated that recent guidance issued required us to revisit our actuarial valuation of the pension fund as at 31<sup>st</sup> March 2022, this meant there was a restatement of the liability of the pension liability. Whilst the value of the restatement which is £2.6M is a reduction of the liability, is a material sum it has no material impact on the accounts as it is an in-and-out change.

Members were reminded of the delegated authority given to the Executive Director - Corporate at the March 2023 Audit Committee in consultation with the Chairman of Audit Committee, to approve any non-material changes to the 2021/22 Statement of Accounts that arise from the final external audit review work, and to approve the letter of representation.

Members were asked to reconfirm that this delegation could cover the pension's liability adjustment.

### DECISION

Audit Committee approved that the delegated authority given to the Executive Director - Corporate in consultation with the Chairman of Audit Committee could cover the pension adjustment.

Mr Suter then outlined the challenges being faced by audit nationally including:

- the impact of Covid
- large backlog of cases
- difficulty in retaining qualified auditors
- lack of new auditors entering the public sector field
- requirements of audits are not reducing

Mr Suter outlined the governments proposed actions to address the situation which are currently out for consultation with key stakeholders. These include:

- amending deadlines for completion of audits
- reducing the scope of audits
- review of accounting requirements
- regulatory bodies looking at conversions of qualifications from public to private sector
- workforce development
- appointment of Director of Local Audit

Until the government release new guidance EY will be unable to confirm the date or scope of the audit for 2022/2023.

Members expressed frustration at the delays and questioned recruitment options considered and whether there is actions Hart could take to assist. Members thanked Mr Suter for the report.

## **7 INTERNAL AUDIT PROGRESS REPORT QUARTER 1 2023/2024**

The Committee received a report from Southern Internal Audit Partnership on the work undertaken at each of their meetings. The report covers the first quarter of 2023-2024. Mr Pitman explained the various sections of the report and what management information was contained within.

Members queried the review of Council Tax services audit undertaken by the previous auditors and the nature of the Vulnerability Management audit.

### **DECISION**

The Committee noted the report.

## **8 DRAFT ANNUAL GOVERNANCE STATEMENT 2022/2023**

Officers presented the draft annual governance statement 2022/23, drawing members attention to issues arising from the 2022/23 review of effectiveness in relation to the management of projects and increasing the robustness of the internal audit plan.

Members were supportive of the new governance arrangements referenced and thanked officers for their work.

### **DECISION**

The Committee approved the draft annual governance statement 2022/23.

## **9 AUDIT COMMITTEE WORK PROGRAMME 2023/2024**

The committee considered the Audit Committee Work Programme, the programme was welcomed. Members queried how items such as deep dives into specific issues could be added. It was noted that additional work items and the resource and time requirements involved would need to be agreed by the Committee as a whole.

The meeting closed at 19:58.



Hart District Council

Auditor's Annual  
Report

Year ended 31 March 2022

Page 6

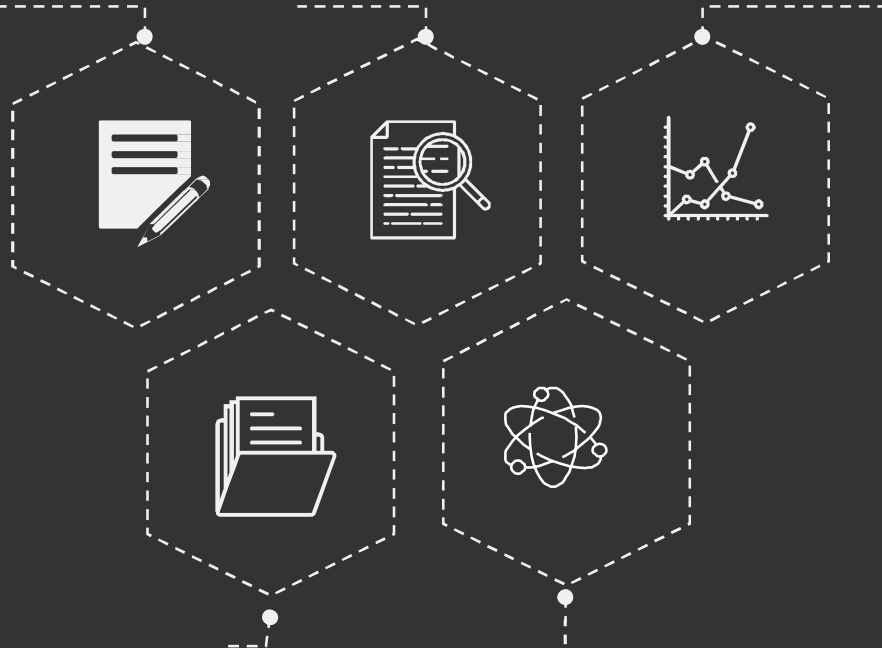
Agenda Item 5

# Contents

Introduction

Audit of the  
financial  
statements

Value for  
Money



Appendix A –  
Value for Money  
Arrangements

Appendix B – Fees

Page 7

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

The “Terms of Appointment and further guidance (updated July 2021)” 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 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 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.



# Introduction

## 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 value for money (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 2021/22 audit work in accordance with the Audit Plan that we issued on 10 May 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;

Conclusions relating to going concern; and

The consistency of other information published with the financial statements, including the narrative statement.

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, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.





## Introduction (continued)

### 2012/22 Conclusions

Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor’s report on 08 August 2023.
Going concern	We have concluded that the Executive Director of Corporate Service's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
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 03.
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.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.
Certificate	We will be able to issue our certificate once the NAO have confirmed whether there are any additional group audit procedures required as part of the Whole of Government Accounts submission.



# Audit of the financial statements

## Key findings

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

On 08 August 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 28 March 2023 Audit Committee meeting, updating the committee in July 2023. 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

## Conclusion

Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure.

We tested a sample of Property, Plant & Equipment additions and confirmed they met the capitalisation requirements under IAS16.

We also tested a sample of Revenue Expenditure financed from capital under statute (REFCUS), confirming the appropriateness classification

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

Misstatements due to fraud or error

Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error.

Our work did not identify any instances of inappropriate journals, judgements or other transactions which appeared unusual or outside the Council's normal course of business.

Valuation of Investment Properties

We sample tested the Council's two main investment properties that make up £16.5m of the Council's investment property balance.

We involved our internal valuation specialists, and our work concluded that the valuation of both properties was supportable and fell within a reasonable range.



# Audit of the financial statements

Other areas of audit focus	Conclusion
<p>Valuation of property, plant &amp; equipment – Other land and buildings.</p>	<p>We sampled 11 assets from the Council’s land and buildings. For 4 assets we involved our internal valuation specialists.</p> <p>We identified a net amendment required of -£1.879m across 7 assets, made up of:</p> <ul style="list-style-type: none"> <li>• £3.468m overstatement</li> <li>• £1.589m understatement</li> </ul> <p>Variances arose mainly due to issues around the use of income and rents, which included:</p> <ul style="list-style-type: none"> <li>• Use of incorrect income;</li> <li>• Including deferred contract income, which in our view should have been disregarded;</li> <li>• Valuation using an EUV method when the rental was not market based, and so a DRC method was more appropriate;</li> <li>• Using open market rents, and disregarding the current lease income;</li> </ul> <p>We discussed each of the issues with the Council’s valuers, and amended valuations were agreed.</p> <p>We reviewed the Council’s cycle of asset valuations, confirming assets had been valued within the required 5 years. For assets not valued during 2021/22, we applied indices to ensure that the values had not materially moved. For the Council’s car parks we applied the movement from those that had been valued, which indicated a £212k increase in valuation.</p>
<p>Pension liability valuation</p>	<p>The Council needed to take account of the pension fund triennial valuation published on 31 March 2023, as the audit had not been completed by that date. Obtaining an updated Pension report from it’s actuary, the Council amended the values due to material differences arising from the updated assumptions and experience items (the difference between assumptions and actuals)</p>
<p>Accounting for Covid-19 grants</p>	<p>We agreed the Council’s classification of the grants as either principal or agent.</p> <p>We identified an overstatement of Central Government Creditor-Agent Balance by £83k</p>

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

Page 12  
Our VFM commentary highlights relevant issues for the Council and the wider public.

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

## Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the March 2023 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with officers and evaluation of associated documentation through our regular engagement with Council management and the finance team.

## Reporting

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 8 to 9. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

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

	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<b>Reporting criteria</b>		
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
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	No significant risks identified	No significant weaknesses identified

## Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The Medium-Term Finance Strategy (MTFS) is reviewed annually and involves discussions with the Chief Executive (CE), Head of Finance 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.

Pressures are reported to the committee meetings and taken into account in the MTFS. 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. This focuses on generating income through acquiring investment properties, efficiently using the existing properties (renting out civic offices), car park income, developer contributions.

Page 13  
Within the September 2021 MTFS and 22/23 budget update, savings suggestions were set out classified into Level One (can be delivered at pace), and Level Two – needing more examination as potential opportunities.

Progress on delivery of the plan is reported to the Cabinet through the MTFS.

The Revenue and Outturn presented to Cabinet on 3<sup>rd</sup> August 2023 for the year ended 31 March 2023 showed:

- The projected outturn from Q3 had been a £17k underspend, had subsequently turned into a £1.3M underspend at the end of the financial year
- This increase was due to additional income from recycling, car parking and interest as well as some accountancy savings and investments

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

## Governance: How the Council ensures that it makes informed decisions and properly manages its risks

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 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. Following the end of the year, the Council has engaged with Southern Internal Audit Partnership to provide Internal Audit services.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage 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

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 has amended its budget during the year based on its forecasting and wider changes that may impact the Council. The September 2021 MTFS update shows examples of updates and amendments, including the identified Level One savings that were identified to respond to emerging pressures.

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.

Looking forward, the Council has some significant contract re-procurements that it is starting to make plans for. The Council needs to ensure that it carefully monitors the progress of these, and ensures they are adequately resourced to ensure the procurements do achieve the best value for money.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

# Appendices

Page 15



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# Appendix A – Summary of arrangements

## Financial Sustainability

### Reporting Sub-Criteria

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

### Findings

The Medium-Term Finance Strategy (MTFS) is reviewed annually and involves discussions with the Chief Executive, Head of Finance 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. As per the cabinet meeting held on 2<sup>nd</sup> September 2021, it was communicated that MTFS will be extended to a period of ten years into the future as recommended by the CIPFA Code of Financial management.

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 during the year, not just an annual review. The original MTFS was taken to the Cabinet on 9<sup>th</sup> December 2019 and we note that this has since been updated to take into account events and updates since that point, including for example the impact of the pandemic.

In 2021/22 this resulted in an MTFS being taken to the Cabinet in September 2021 including a 2022/23 budget update, after the information was considered by Overview & Scrutiny committee on 17 August 2021. During 21/22, updates on the budget were taken to the Cabinet in September and February 2022. This is taken to the relevant committee meetings by the Head of Corporate Service/S151 Officer and collated through internal meetings to monitor the financial impact of services.

Pressures are reported to the committee meetings and taken into account in the MTFS. Further financial monitoring had been introduced in the previous year due to the impact of Covid-19 However, on 1<sup>st</sup> April 2021, the Monitoring officer formally noted that the council has stepped down from the major incident and would continue on recovery but that emergency provisions within the constitution were no longer used by the council 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 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. This focuses on generating income through acquiring investment properties, efficiently using the existing properties (renting out civic offices), car park income, developer contributions.



# Appendix A – Summary of arrangements

## Financial Sustainability

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings (continued)	<p>Within the September 2021 MTFS and 22/23 budget update, savings suggestions were set out classified into Level One (can be delivered at pace), and Level Two – needing more examination as potential opportunities.</p> <p>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 legacy 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.</p>
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>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.</p> <p>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.</p> <p>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.</p>
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	<p>Operational changes are identified by Business Partners during the year through discussion with their service managers; 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.</p> <p>The Council has a number of well-established partnerships which are built into the normal budgetary control processes. This initially included the 5 Councils’ contract to achieve economy and efficiency by pooling resources however it was noted that the KPIs were not favourable due to which the Council has gradually withdrawn from the arrangement. This was reviewed in detail in our prior year VFM work during 2019-20.</p> <p>For 2021/22 the Council still had arrangements with Mendip DC to provide accountancy services, joint waste service with Basingstoke &amp; Deane BC, arrangements to operate its leisure centres and other smaller partnerships. The Corporate Plan segregates the strategy into different sections to ensure there are action points for each area. This is then brought together in the MTFS/Budget monitoring reports to capture the financial implications and monitor progress.</p>

# Appendix A – Summary of arrangements

## Financial Sustainability

### Reporting Sub-Criteria

### Findings

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 (continued)

The council has already recognised the future funding risk and has successfully adopted a commercial strategy. This aimed to deliver £1.2 million additional income. There is, however, risk involved in this approach and whilst the council has purchased two investment properties and developed affordable homes there are no guarantees that future profitable opportunities will be found. In addition, the council will be taking additional risks such as voids and the timing of acquisitions and construction. 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.

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 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. Regular 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 see the effect. This action generally occurs in the second half of the year, as recorded above with the September MTFS update and forward view to the 2022/23 budget.

The Council recognises pressure on its funding and the requirement of generating income from commercial sources. We note that that the Council then produced a balanced budget in February 2022 for the 2022/23 financial year, updating the members on the savings programme with Level Two savings of £202k identified and included across 7 areas. The MTFS projections showed deficits for the forthcoming years as at that time, based on the documented assumptions in particular for future funding which has a number of uncertainties. We viewed those assumptions to be reasonable.

A Corporate risk register is in place and are reviewed on a regular basis by management – The risk register is reported to Overview and Scrutiny every 6 months. The Corporate Risk Register has identified risks around financial resilience and changes in demand due to Covid-19 and other legal changes.

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.

An assessment of compliance with the CIPFA Financial Management code was completed by the S151 officer for 2020/21 and was reported to audit committee in July 2021. The update on implementation of the CIPFA Financial management code was reported to audit committee on 7<sup>TH</sup> December 2021.

## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

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

#### Findings

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.

6 monthly risk reports were taken to Overview and Scrutiny Committee in September 21 and March 2022.

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.

The Council's internal audit manager was supported during 2021/22 by auditors from Wokingham Borough Council and Basingstoke & Deane Borough Council.

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 pandemic, 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.

## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

#### Findings

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 (continued)

The Council has a risk management policy based on which it should provide regular updates to the Overview and 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.  
We note that the overall Head of Internal Audit's opinion as at 31 March 2022 was 'Satisfactory'.

After the year-end, it has been confirmed that the internal audit provision will be consolidated, and Southern Internal Audit Partnership (SIAP) will provide that service to the Council.

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.

# Appendix A – Summary of arrangements (continued)

## Governance

### Reporting Sub-Criteria

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

### Findings

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.

The 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 21/22, 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 materials are available to all users and act as reference guides.

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.

## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

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 (continued)

#### Findings

The Constitution contains a detailed explanation of roles and responsibilities of each committee which in turn lead to effective working of the Council.

The Monitoring Officer and Chief Finance Officer (s151 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.

This includes consideration of all matters relating to the Council's audit function, including receiving the annual audit letter, auditor's reports, and settling the internal audit work programme. The committee meets a minimum of three times a year except in 2020 due to the pandemic where only two meetings were held. We note that the frequency also depends on requirements and importance of discussing areas under the Audit Committee's remit. In 21/22, the Audit committee met 4 times.

Through our attendance at the audit committee, we have noted that further training should be provided to committee members to ensure constructive discussions underpinned by the roles and functions defined per the constitution are undertaken to achieve objectives of the committee. Issues have been raised, on more than one occasion, that are clearly outside the Terms of Reference of the Committee.

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.

## Appendix A – Summary of arrangements (continued)

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### Governance

#### Reporting Sub-Criteria

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)  
Continued.

#### Findings

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.  
The Council has a Personal Data Breach Response Plan. This guide is for staff to refer to in the event of a Personal Data Breach. It is referenced in staff training. Personal Data Breaches are assessed against risk, using Data Breach and Risk Assessment Checklist. Whenever a Personal Data Breach occurs, the Incident Register is completed. Staff are reminded about the Personal Data Breach reporting steps in the staff bulletin

## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

#### Reporting Sub-Criteria

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

#### Findings

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 service 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 Council has amended its budget during the year based on its forecasting and wider changes that may impact the Council. The September 2021 MTFS update shows examples of updates and amendments, including the identified Level One savings that were identified to respond to emerging pressures.

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, or to assess if changes are need that will update the MTFS and next budget – which then rolls forward into the next budget cycle.

Contract monitoring and performance monitoring are built in as a section in the template quotation form used at Hart to ensure buyers are thinking about how they will monitor the contract right from the specification design. The guidance provided to staff also starts by making sure Data Protection considerations have been made (step 1) before designing the specification.

In terms of what are the appropriate processes in place for specific contracts, this will depend on the size of it and level of risk present. For example, the Capita and Leisure contracts have monthly reviewed KPIs, regular Service Improvement Groups, open book approach financial reviews and governance in place for escalations. Others, such as small improvement works in the Countryside service will have some of these or lighter touch reviews (eg weekly/daily onsite meetings during the works phase), the key is for the monitoring to be proportionate to the risk.

Service Plans, service priorities and performance indicators and targets are set each year. These plans are considered by Overview and Scrutiny which then makes recommendations to Cabinet as appropriate. Key risks from these service plans are recorded on the service risk registers and any corporate risks recorded on the corporate risk register.

Results of performance Indicators and targets are reported by Heads of Service at service panels – these are then reported to Overview and Scrutiny.

The Council has a Personal Data Breach Response Plan. This guide is for staff to refer to in the event of a Personal Data Breach. It is referenced in staff training. Personal Data Breaches are assessed against risk, using Data Breach and Risk Assessment Checklist. Whenever a Personal Data Breach occurs, the Incident Register is completed. Staff are reminded about the Personal Data Breach reporting steps in the staff bulletin



## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

#### Reporting Sub-Criteria

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

#### Findings

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.

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). Previously 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. However, during 2021/22 the lead role transferred to BDBC.

The other main area is the 5 Councils contract. 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 was delivered during 21/22 by Mendip DC. The exchequer service was brought back to HDC from 1/04/2021. This was because the Council did not see planned savings through this partnership and also the KPI monitoring did not show the level expected by Hart DC.

The two examples above show that the Council take action where necessary and monitor the performance of the Council, and amends partnership arrangements with it's partners.

The information is also taken to the relevant Council meetings to engage stakeholders at the appropriate time

## Appendix A – Summary of arrangements (continued)

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### Improving economy, efficiency and effectiveness

#### Reporting Sub-Criteria

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

#### Findings

Contract Standing orders are in place to achieve efficiencies which were revised and approved by Cabinet in November 2020. They are located within the Constitution, which we note was updated after the year we are assessing in August 2022. 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.

In 20/21, a joint decision was made across the 5 Councils to insource procurement, and so during 21/22 the former Capita procurement function under the 5 councils contract has been brought in house.

## Appendix B – Fees

### 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 in relation to Misstatements due to fraud or error, Inappropriate capitalisation of revenue expenditure due to fraud or error, the valuation of Investment properties. As a result, we have discussed an associated additional fee with the Executive Director of Corporate Services which remains subject to approval by PSAA Ltd.

Our fee for 2021/22 is in line with the audit fee agreed and reported in our 2021/22 Annual Results Report.

Page 27

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Scale Fee	41,469	41,469	41,469
Scale Fee Rebasing (1)	30,668	30,625	7,485
Revised Proposed Scale Fee	72,137	72,094	48,954
Scale Fee Variation (2)	26,695	9,948	36,634
Objection	n/a	n/a	5,325
Total Audit Fee – Code work	98,832	82,042	90,913
Non-audit work (3)	16,938	11,758	16,938
Total fees	105,032	93,800	107,851

(1) As detailed in our 2020/21 Auditor’s Annual Report we have submitted a proposed rebasing of the scale fee. PSAA have approved the 20/21 Scale Fee Variation (including rebasing element) as shown. We continue to record the same rebasing figure for 21/22 as we submitted for 20/21 (Difference of £43 due to rounding).

(2) For 2021/22, the scale fee is impacted by a range of factors which has resulted in additional work. We have determined the impact, which will be finalised and discussed with management before submission to PSAA

(3) Final non-audit fee for as reporting accountant for your Housing Benefit Assurance Process (HBAP) to the DWP to be agreed at the completion of the work. In 2020/21 there were 4 lots of additional testing that will need to be followed-up in 2021/22, which will increase the fee above the initial plan. Therefore, we estimate this will be in region of the prior year fee.

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ED None

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## AUDIT COMMITTEE

**DATE OF MEETING:** 24 October 2023

**TITLE OF REPORT:** INTERNAL AUDIT PROGRESS REPORT -  
SEPTEMBER 2023

**Report of:** Executive Director - Corporate and Section 151  
Officer

**Cabinet Portfolio:** Finance

**Key Decision** No

### 1 PURPOSE OF REPORT

- 1.1 The purpose of this paper is to provide the Audit Committee with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

### 2 OFFICER RECOMMENDATION

- 2.1 To note the Internal Audit Progress Report (September 2023) as attached

### 3 BACKGROUND

- 3.1 Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:
- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
  - undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance
- 3.2 In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:
- The status of 'live' internal audit reports (outstanding management actions)
  - an update on progress against the annual audit plan
  - a summary of internal audit performance, planning and resourcing issues
  - a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

3.3 Appendix A summarises the activities of internal audit for the period up to September 2023.

## 4 CORPORATE GOVERNANCE CONSIDERATIONS

### Relevance to the Corporate Plan and/or The Hart Vision 2040

Monitoring internal audit progress in the delivery of the internal audit plan contributes towards the Corporate Plan priority of 'Building a Resilient Council'.

### Service Plan

Is the proposal identified in the Service Plan?	Yes
Is the proposal being funded from current budgets?	Yes
Have staffing resources already been identified and set aside for this proposal?	Yes

### Legal and Constitutional Issues

The Accounts and Audit Regulations 2015 require the Council to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

The public sector internal audit standards require that the Chief Internal Auditor provide written status report(s) to the Audit Committee

### Financial and Resource Implications

There are no financial implications arising from this report.

### Risk Management

The internal audit service is not compliant with the public sector internal audit standards and there is a lack of clarity and transparency over the role, independence, accountability and reporting lines of the internal audit function.

## 5 EQUALITIES

5.1 There are no equalities issues arising from this report.

## 6 CLIMATE CHANGE IMPLICATIONS

6.1 No direct carbon/environmental impacts arising from the recommendations'

## **7 ACTION**

7.1 The Internal Audit Progress Report – September 2023 is noted.

**Neil Pitman, Head of Southern Internal Audit Partnership**

### **Appendices**

A Internal Audit Progress Report – September 2023

**Background papers:** None



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**Southern Internal  
Audit Partnership**

Assurance through excellence  
and innovation

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**HART DISTRICT COUNCIL  
INTERNAL AUDIT PROGRESS REPORT – SEPTEMBER 2023**

Prepared by: **Neil Pitman, Head of Partnership**



## 1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

*‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’*

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

*‘Independent, objective assurance and consulting activity designed to add value and improve an organisations’ operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.*

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations’ objectives.

## 2. Purpose of report

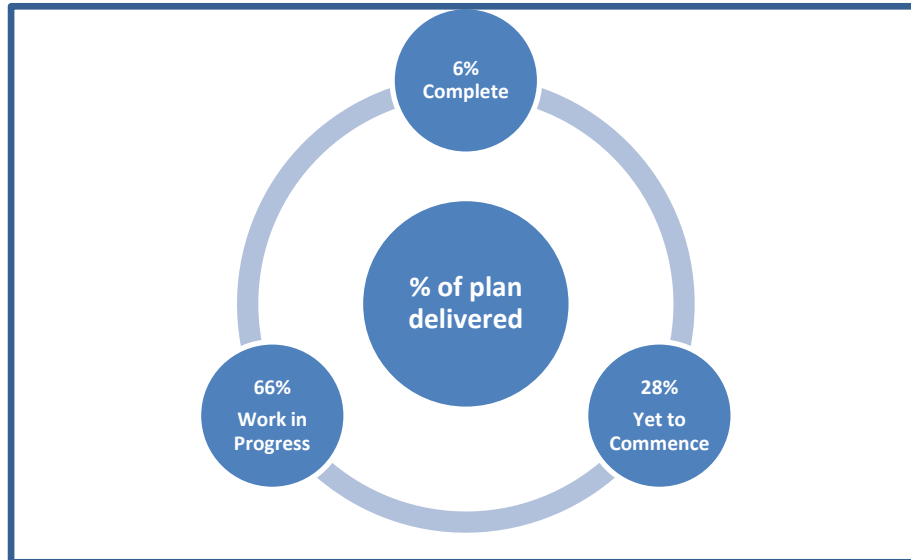
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

### 3. Performance dashboard



\*Results are the outcomes of a Partnership wide survey undertaken in April 2023.

#### Compliance with Public Sector Internal Audit Standards

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. The report concluded:

*'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.'*

*'We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'*

**4. Analysis of 'Live' audit reviews**

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)	Not Accepted	Not Yet Due	Complete	Overdue		
								L	M	H
Safeguarding	Aug 23	Community	Reasonable	15		5	7		1	2
<b>Total</b>								<b>1</b>	<b>1</b>	<b>2</b>

**Audit Sponsor**

Chief Executive  
Daryl Phillips

Executive Director of Community Services  Kirsty Jenkins	Executive Director of Corporate Services  Graeme Clark	Executive Director of Place Services  Mark Jaggard
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## 5. Executive Summaries of reports published concluding a ‘Limited’ or ‘No’ assurance opinion

There have been no limited assurance opinions issued.

## 6. Planning & Resourcing

The internal audit plan for 2023-24 was presented to and agreed by the Senior Leadership Team and the Audit Committee in March 2023. The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 7.

## 7. Rolling Work Programme

Audit Review	Sponsor	Scoping	ToR	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
<b>2022/23</b>								
IT Controls	Corporate	-	-	-	-			With S151
Procurement	Corporate	-	-	-	-			With S151
Planning Performance	Place	-	-	-	-			With S151
<b>2023/24</b>								
Information Governance	Corporate	✓	✓	✓	Oct 23			
Risk Management	Corporate							Q3
Programme & Project Management	Corporate	✓	✓	✓				
HR – Workforce Strategy	Corporate	✓	✓	✓	Sep 23			
Savings Realisation	Corporate	✓						
Decision Making	Corporate	✓						
National Fraud Initiative	Corporate	✓	✓					
Payment Card Industry Standards	Corporate							Q4
Cyber – Staff Training & Awareness	Corporate	✓	✓	✓				
Vulnerability Management	Corporate	✓						
Accounts Receivable & Debt Management	Corporate	✓						
Housing Benefits	Corporate							Q4
Climate Change	Corporate							Q3
Safeguarding	Community	✓	✓	✓	Jul 23	Aug 23	Reasonable	

Audit Review	Sponsor	Scoping	ToR	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Licencing	Place	✓	✓	✓				
S106 Developer Contributions	Place							Q4
Waste & Recycling	Corporate							Q4
Legal Services	Corporate	✓	✓	✓				

## 8. Adjustments to the Internal Audit Plan

Plan Variations 2023/24	
Additions to the plan	Explanation
N/A	-
Deletions from the plan	Explanation
N/A	-

## Overdue 'High Priority' Management Actions

Safeguarding - Reasonable			
<p><b>Observation:</b> Safeguarding training is mandatory for all staff every two years. Outside of this, a Quick Guide session should be delivered within six weeks of new starters commencing work at the council to ensure some knowledge of safeguarding, it's processes and policies are shared. Analysis was conducted on training records and staff data which found 37 out of 126 current officers (29%) did not attend full training (of which 27 were not found on the training list).</p>			
<p><b>Risk:</b> If staff and council members aren't receiving safeguarding training, then it exposes the council to possible safeguarding issues being missed or not acted on</p>			
Management Action	Original Due Date	Revised Due Date	Latest Service Update
Meet with HR to ensure that process for New Starters and Induction guidance to all Managers advises the need to provide at least the Quick Safeguarding Training within 6 weeks of start of employment.	31/08/23	31/10/23	This has not taken place and has a revised completion date of 31/10/2023.
Safeguarding - Reasonable			
<p><b>Observation:</b> Discussions and on screen sharing with the Designated Safeguarding Lead found that accurate and timely notifications of new starters are not always received from HR, which can lead to delays in providing training.</p> <p>The DSL has advised that HR is more proactive since the function has been in-sourced, but it was evident that without the reports being regularly provided there are no additional methods for prompts to deliver training. There is currently no formal process for updating on new starters and leavers and expectations around timelines for initial training to be delivered.</p>			
<p><b>Risk:</b> Without accurate and routine reporting from HR safeguarding training cannot be delivered within the compliant timelines</p>			
Management Action	Original Due Date	Revised Due Date	Latest Service Update
Meet with Data Governance Officer and IT Manager to discuss best practice for recording and monitoring other statutory training e.g., Cyber Safety and GDPR to see if process can be further automated or improved.	31/08/23	15/11/23	This has not taken place and has a revised completion date of 15/11/2023

## Overdue 'Low &amp; Medium Priority' Management Actions (October 2023)

Audit Review	Report Date	Opinion	Priority		Due Date	Revised Due Date
			Low	Medium		
Safeguarding	Aug 23	Reasonable		1	31/08/23	02/11/23
<b>Total</b>			<b>1</b>	<b>1</b>		



Prepared on 19 September 2023

## 2023/24 scale fee for Hart District Council

PSAA has recently launched its [consultation on the fee scale for 2023/24 audits](#).

Our aim is to update your scale fee to ensure it reflects current audit requirements. This updating is particularly important for the 2023/24 fee scale to ensure fees are set on a consistent and equitable basis at the start of the new contract period. This means that the scale fee for each opted-in body better reflects the audit work required under the current Code of Audit Practice published by the National Audit Office and the regulatory expectations of the Financial Reporting Council. Updating the fee scale in this way will have the benefit of making expected fees clearer for opted-in bodies much earlier in the audit cycle and reducing the volume of fee variations.

We propose setting your 2023/24 scale fee based on the elements set out in Table 1 below. Table 2 provides more detail. Further explanation of each of the elements is provided in the consultation on the fee scale for 2023/24 audits.

**Table 1: Summary of your proposed 2023/24 scale fee**

Fee scale elements	
1) 2022/23 scale fee	£50,469
2) Add: approved fee variations or estimates for recurring work not already included (see Table 2 for details)	£0
3) Add: changes in audit requirements (VFM arrangements, ISA 540)	£10,500
4) Add: adjustment for special circumstances (where applicable)	£0
<b>Subtotal 2022/23 scale fees plus recurring fees</b>	<b>£60,969</b>
5) Audit fee adjustment to reflect the procurement outcome (uplift by 151%)	£92,063
<b>Scale fee for 2023/24</b>	<b>£153,032</b>

PSAA is required under the local audit regulations to consult on and set the 2023/24 fee scale by 1 December 2023. We cannot change your scale fee after that date. Any further changes in the work the auditor needs to undertake on your audit will therefore need to be determined using the fee variations process, and if the increase or decrease in the work is recurring the change will be considered for consolidation in the next fee scale.

We are setting the 2023/24 fee scale at a time of change in the local audit system. In July 2023 the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to address the audit backlog and is working with all stakeholders to tackle the complex issues involved. The proposals include the possibility of a time-limited revision to the Code of Audit Practice, which may reduce the amount of audit work needed while the backlogs are resolved. The proposals are still under consideration and any changes affecting fees are still to be confirmed, so we cannot reflect them in the proposed fee scale. We are therefore consulting on the basis of existing audit requirements. We will need to assess the impact on audit fees if changes are confirmed, and at that point we will write to opted-in bodies to set out how we will update fees.

Table 2 below sets out the proposed aggregate recurring value for consolidation into your 2023/24 scale fee in column A. Some of these recurring values may already have been consolidated into your 2022/23 scale audit fee. Where this is the case, relevant figures are shown in column B. The balance of any recurring value (A minus B) which has not yet been consolidated is shown in column C. These are the additional fees which we propose to incorporate into your 2023/24 scale fee.

The proposed values in Table 2 are based on fee variations approved to date for your audit over the four audit years 2018/19-2021/22 (left-hand side of table 2). Where fee variations are yet to be determined, either for particular categories or overall, we have used estimates based on averages for your authority type. The figures in Table 2 may not reconcile directly to the fee variation statements we have sent you previously for approved fee variations because:

- we have reviewed each fee variation to identify the recurring element specifically, as sometimes fee variations can be a combination of recurring and non-recurring work; and
- we have considered the applicability of each category to each opted-in body to ensure we are consolidating the proposed additional fees consistently and equitably where we would expect the auditor would need to undertake additional work.

Further fee variations may be needed during the course of the 2023/24 audit. For example, our research has concluded that it is premature at this stage to consolidate additional fees for some changes in audit requirements such as ISA 315 and ISA 240. The recurring elements of any further fee variations approved will be considered in future fee scale consultations.

**Table 2: Summary of recurring figures for consolidation into 2023/24 scale fees**

Fee variation area of work	Proposed aggregate recurring value for consolidation into 2023/24 scale fees	Already consolidated into 2022/23 scale fees	Recurring value for consolidation into 2023/24 scale fees
	A	B	A-B=C
Group accounts – note 1	£0	£0	£0
Pension valuation	£2,625	£2,625	£0
PIE	£0	£0	£0
PPE valuation	£2,875	£2,875	£0
Increased FRC Challenge	£3,500	£3,500	£0
PFI – note 2	£0	£0	£0
Other – note 3	£0	£0	£0
VFM commentary	£8,500	£0	£8,500
ISA540	£2,000	£0	£2,000
IAS19 – note 4	£0	£0	£0
Major local audits	£0	£0	£0
Investment valuations – note 5	£0	£0	£0
<b>Total</b>	<b>£19,500</b>	<b>£9,000</b>	<b>£10,500</b>

## Notes

1. **Group accounts:** in some cases, for example bodies with long-standing group accounts requirements, if we have not previously consolidated a fee variation into the scale fee but are aware that work on group accounts will be required, we have updated the proposed 2023/24 scale fee accordingly.
2. **PFI:** while most PFI schemes are long-standing, an incoming audit firm will not be familiar with the details of each scheme and will need to do additional work to understand the scheme and model. The additional work will therefore require a fee variation.
3. **Other:** we have included additional amounts where the body has experienced significant changes in size or complexity or other factors. We propose making a temporary scale fee adjustment, but subject to detailed review after the first audit year to compare to the actual outcome. We will then determine if the adjustment is correct or requires further refinement for subsequent years.
4. **IAS19:** applies to pension fund audits only and reflects the expectation in NAO auditor guidance that auditors of pension funds should provide IAS 19 assurances under the scope of the Code of Audit Practice to auditors of admitted bodies that are relevant local audit bodies. We propose including an additional fee for this work in the 2023/24 scale fee for each pension fund audit, calculated based on the number of assurances expected for local audit bodies in the local government sector. This work was previously outside the Code, so although additional fees are likely to have been charged these may have been reported differently by the auditors.
5. **Investment valuations:** applies to pension fund audits / pension authorities only and relates to the additional work/testing auditors are doing in response to clarification of regulatory expectations. This includes auditors demonstrating that they have heightened their challenge of management’s assumptions/assessments and have a greater depth to their assurance about the source of evidence.

**From:** Work and fees consultation <workandfeesconsultation@psaa.co.uk>  
**Sent:** 19 September 2023 11:34  
**To:** Graeme Clark <>  
**Cc:** Chris Axam <>  
**Subject:** Hart District Council - proposed 2023/24 scale fees

**CAUTION:** This email originated from outside of Hart District Council. Do not click links or open attachments unless you recognise the sender and know the content is safe.

Dear Mr Clark,

PSAA has recently launched its [consultation on the fee scale for 2023/24 audits](#). The 2023/24 fee scale is the first in the second five-year appointing period, covering 2023/24 to 2027/28 audits. The consultation explains how PSAA proposes to calculate the audit fees which will make up the 2023/24 fee scale.

Attached to this email is a summary of the recurring fees we propose to consolidate into the 2023/24 scale fee for Hart District Council.

If you have any comments or questions in relation to any aspects of the consultation including the recurring fees we propose to consolidate into your 2023/24 scale fee please let us know by **10 October 2023** by email to [workandfeesconsultation@psaa.co.uk](mailto:workandfeesconsultation@psaa.co.uk).

We will publish the final 2023/24 fee scale on our website by the end of November 2023, together with the updated scale fees for individual opted-in bodies.

Yours sincerely,

Tony Crawley

Chief Executive, PSAA

# Consultation on the 2023/24 audit fee scale

**Opted-in local government, fire, police and  
other bodies**

**September 2023**

**Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.**

**The Secretary of State has specified PSAA as an appointing person for eligible local government bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.**

**PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, and managing the contracts with audit firms to provide the audit services required.**

## Contents

<b>Summary .....</b>	<b>2</b>
<b>Responding to the consultation .....</b>	<b>3</b>
<b>The 2023/24 fee scale .....</b>	<b>4</b>
Introduction .....	4
The 2023/24 fee scale .....	4
Summary of Proposal .....	10
<b>Additional information.....</b>	<b>11</b>
Statement of responsibilities .....	11
Value added tax .....	11
New contract management arrangements .....	11
<b>Next steps .....</b>	<b>12</b>

## Summary

- 1 This consultation invites audited bodies and other stakeholders to submit views on PSAA's proposals for setting the fee scale for the 2023/24 audits. At this stage, it is expected that audit work under this fee scale will largely be undertaken from autumn 2024 onwards. However, there is currently a local audit system-wide discussion taking place about the possible timetable for the audit work for 2023/24 and earlier years for which audit opinions are currently outstanding.
- 2 The 2023/24 audits are the first in the second five-year appointing period. PSAA awarded new contracts for this appointing period in 2022 to six audit firms, following a challenging and protracted procurement. The procurement demonstrated clearly the limited audit capacity available to meet the demands of the local audit market.
- 3 This consultation on the 2023/24 fee scale is taking place at a time of change in the local audit system. Consultees will be aware that the audit profession has been subject to high levels of scrutiny in recent years following several widely reported financial failures in the private sector. Over this period there have been growing delays in completing local audits. In July 2023 the Department for Levelling Up, Housing and Communities (DLUHC) announced [proposals to address the backlog](#), and is working with all stakeholders to tackle the complex issues involved. The proposals include the possibility of a time-limited revision to the Code of Audit Practice, which may reduce the amount of audit work needed while the backlogs are resolved. System leadership arrangements are also evolving, with the expected transfer of shadow system leadership from DLUHC to the Financial Reporting Council (FRC) in the near future.
- 4 PSAA is required under the local audit regulations to consult on and set the 2023/24 fee scale by 1 December 2023. Proposals to address the audit backlog are still under consideration and any changes affecting fees are still to be confirmed, so we cannot reflect them in the proposed fee scale yet. We are therefore consulting on the basis of existing audit requirements. We will need to assess the impact on audit fees once changes are confirmed, and at that point we will write to opted-in bodies to set out how we will update fees. Where an auditor has collected audit fees in part or in full and a change in requirements means that the total work done represents less than the fee already collected, then the auditor must return the balance and refund the body the appropriate amount. This ensures that bodies pay only for work that has been done.
- 5 Our fee scale proposals for 2023/24 audits are set out in more detail in the body of this consultation. In summary, they involve ensuring that scale fees are fully and consistently updated for the start of the new appointing period. This means that the scale fee for each opted-in body better reflects the audit work required under the current Code of Audit Practice published by the National Audit Office and the regulatory expectations of the FRC. Updating the fee scale in this way will have the benefit of making expected fees clearer for opted-in bodies much earlier in the audit cycle and reducing the volume of ongoing fee variations.
- 6 The consultation explains how PSAA proposes to calculate the audit fees which will make up the 2023/24 fee scale. The proposals involve managing the impact of a range of elements, including the additional fees now required for recurrent additional work; changes in local audit requirements (for example updated technical standards); and

## Consultation on 2023/24 audit fee scale

adjustments at individual bodies where local circumstances now require more audit work than previously. The 2023/24 scale fee calculation involves:

- a) the scale fee for the previous year (2022/23), as the starting point;
  - b) adding in fees for any changes in the audit work now needed, replacing the need for fee variations wherever possible; and
  - c) taking the total of the previous scale fee plus the additional work needed (a plus b) and applying the procurement adjustment for the new contract rates for audit firms.
- 7 When we announced the outcome of the procurement in October 2022, we advised opted-in bodies to anticipate a major re-set of total fees for 2023/24 involving an increase estimated in the order of 150% on total fees (that is, scale fees plus additional fees) for 2022/23. We are now able to confirm the increase required is 151%.
- 8 We recognise the significant financial pressures on all types of local government bodies and understand that any further cost pressure is unwelcome. However, the level at which we are proposing to set the 2023/24 fee scale is determined by the audit work needed to deliver audits compliant with the requirements of the Code of Audit Practice, and market rates.
- 9 The PSAA Board will consider consultation responses carefully in determining the final fee scale for 2023/24. We will publish the final fee scale on our website by 30 November 2023.

## Responding to the consultation

We welcome comments on the proposals contained in this document. Please provide your feedback at:

<https://www.surveymonkey.co.uk/r/ZS8YK3K>

The consultation will close at **noon** on **Tuesday 10 October 2023**.



## The 2023/24 fee scale

### Introduction

- 10 PSAA is required under the Local Audit (Appointing Person) Regulations 2015 to consult on and prescribe a scale or scales of fees for bodies that have opted into its national auditor appointment scheme.
- 11 A scale of fees must relate to a particular financial year and must be set by 1 December of the relevant year. A published fee scale cannot be amended after the statutory publication date.
- 12 The 2023/24 fee scale consultation is taking place in the context of considerable turbulence and uncertainty in the local audit system. Following a number of widely reported financial failures in the private sector the government commissioned a series of reviews of audit and has subsequently consulted on proposals for change. The 2020 [Redmond review](#) focused specifically on the local audit system and the transparency of local authority financial reporting. It highlighted a lack of coherence and leadership in the current local audit framework, contributing to wider issues including audit delays and market instability.
- 13 Audit delays have become more prevalent in the local audit system under the pressure of additional audit requirements, increasing expectations from professional regulators, shortages of experienced auditors and greater complexity of transactions and structures at opted-in bodies. In July 2023 DLUHC announced [proposals to address the backlog](#), and is working in tandem with the FRC and all other stakeholders to find a sustainable solution.
- 14 System leadership arrangements are also evolving, with the expected transfer of shadow system leadership from DLUHC to the FRC ahead of the creation of a new regulator, the Audit, Reporting and Governance Authority, which will become the system leader for local audit.
- 15 The 2023/24 fee scale is the first in the second five-year appointing period specified by PSAA, covering 2023/24 to 2027/28 audits. Auditors will undertake their work under new contracts. The bid prices we received in the procurement involve a significant increase compared to our previous procurement in 2017, reflecting the major challenges in the wider audit market and in the local audit system.

### The 2023/24 fee scale

- 16 In setting the 2023/24 fee scale, PSAA is proposing to update individual scale fees to ensure they reflect current audit requirements for all opted-in bodies. This updating is particularly important for the 2023/24 fee scale, to ensure fees are set on a consistent and equitable basis at the start of the new contract period.
- 17 We propose that the 2023/24 fee scale should include the following elements:
  - a) the scale fees set for 2022/23;

PLUS:

## Consultation on 2023/24 audit fee scale

- b) approved fee variations for recurrent additional work in prior years that have not yet been included in the fee scale, or estimates where fee variations are yet to be determined (for example where audit completions have been delayed);
- c) fees where changes in audit requirement for prior years have required additional work and these fees have not yet been consolidated into the fee scale (for example the requirement for the VFM arrangements commentary);
- d) fees for new changes in audit requirements, where there is appropriate evidence to support consolidation at this point;
- e) adjustments at specific bodies where there are special circumstances; and
- f) the adjustment required for the procurement outcome.

**18** Further information on each element is provided in the following paragraphs.

### The scale fees set for 2022/23

- 19** In setting the fee scale each year, we use the scale fees for the previous year as the starting point before taking into account any necessary adjustments, for example in respect of any recurring approved fee variations. This should provide the most up-to-date information available about the work required to deliver an audit compliant with the Code of Audit Practice and regulatory requirements at each opted-in body.
- 20** However, the impact of delayed audit completions meant that when we consulted on and set the last fee scale in autumn 2022, we did not have complete data on the total fees needed for all audits. We were therefore not able to update the scale fees for ongoing additional work at all opted-in bodies when we set the 2022/23 fee scale.

### Fee variations for recurrent requirements not yet included in the fee scale

- 21** Auditors may find it necessary to carry out additional audit work to give their audit opinion. This may be because requirements have changed, or it may be due to local circumstances. The local audit regulations allow for additional fees to be payable where substantial additional work is required. Additional fees are evaluated under our fee variations process and are subject to PSAA approval.
- 22** Where the additional audit work is of an ongoing nature we consolidate the additional fee into the fee scale fee at the earliest opportunity, to reflect the need for that work in future years and reduce the need for fee variations. In contrast, non-recurrent additional work continues to be dealt with through one-off fee variations each year.
- 23** For the 2023/24 fee scale we are proposing to update the scale fees for individual opted-in bodies where additional recurrent audit work is needed. We will use information on approved fee variations for prior years or estimated figures where audits have been delayed. This updating process will put the scale fees for all 2023/24 audits onto an equal basis.
- 24** The categories of additional work where we have reviewed approved fee variations or proposed estimates for consolidation cover: group accounts, pension valuation, PPE valuation, enhanced audit requirements in relation to public interest entities and major local audits, increased FRC challenge, PFI, and investment valuation (pension funds).

## Consultation on 2023/24 audit fee scale

- 25 We have considered the applicability of each category to each opted-in body to ensure we are consolidating the proposed additional fees consistently and equitably. In some cases, for example bodies with long-standing group accounts requirements, if we have not previously consolidated a fee variation into the scale fee but are aware that group accounts are required, we have updated the proposed 2023/24 scale fee to include this.
- 26 While most PFI schemes will be long-standing schemes, an incoming audit firm will not be familiar with the details of each scheme and will need to undertake additional work to understand the scheme and model. This additional work will require a fee variation.
- 27 It is important to stress that consolidating additional fees for recurrent requirements identified in prior years does not change the total fee to be charged. It introduces greater certainty on fees and will help to address the current imbalance where fee variations have become a significant proportion of the total audit fee required.

### Changes in local audit requirements

- 28 Audit requirements have increased in recent years as a result of increased regulatory challenge, changes to the audit work required under the Code of Audit Practice and updated auditing and financial reporting standards.
- 29 Where local audit requirements change or are updated PSAA must consider the potential impact of each development on the fee scale. We need to consider whether additional fees are appropriate, whether we can estimate the additional fees based on reliable evidence, and at what point it is appropriate to incorporate the fees into the proposed fee scale. When consolidating fees into the fee scale it is particularly important to avoid the risk of over-estimating the additional audit work needed in the longer term.
- 30 Over the last three years we have commissioned external independent technical research to provide information, analysis and recommendations to support our work on updating the fee scale. This work has also provided input to our fee variations reviews. The results of this work support the [information paper](#) we publish each year in relation to audit fees.
- 31 Based on the research this year we are now able to determine the level at which it is reasonable to consolidate additional work into the 2023/24 fee scale for:
  - the VFM arrangements commentary that replaced the previous binary conclusion in the 2020 Code of Audit Practice, effective from 2020/21 audits; and
  - additional requirements in ISA (UK) 540 (revised) Auditing Accounting Estimates, effective from 2020/21 audits.
- 32 We have previously [published indicative minimum](#) additional fee ranges for work in these areas from 2020/21 onwards, and will publish an [update for 2022/23 audits](#) in September 2023. The level at which we propose to consolidate additional fees for the work into the 2023/24 fee scale assumes there is nothing unusual about the circumstances of an individual body and that good arrangements and internal controls are in place.

**VFM arrangements commentary – fees for consolidation**

Body type	Minimum core range published for 2020/21 and 2021/22 audits	Benchmark level for inclusion in 2023/24 fee scale
District councils	£6,000-£11,000	£8,500
County councils	£10,000-£19,000	£14,500
Unitary authorities London borough councils Metropolitan district councils	£10,000-£19,000	£14,500
Police and crime commissioners and chief constables	£6,000-£11,000 Split between PCC and CC not specified	£8,500 in total, split as: £5,700 PCC £2,800 Chief constable
Fire authorities	£5,000-£9,000	£5,250
Other local government bodies (such as combined authorities, national park authorities)	Not specified, as the number of bodies by body type is too small and arrangements are variable	Based on average of approved fee variations by body type

**ISA 540 revised – fees for consolidation**

Body type	Minimum core fee published for 2020/21 and 2021/22 audits	Benchmark level for inclusion in 2023/24 fee scale
District councils	£2,500	£2,000
County councils	£3,800	£3,000
Unitary authorities London borough councils Metropolitan district councils	£4,400	£3,500
Police and crime commissioners and chief constables	£2,500 Covers both	£2,000 in total, split as: £1,300 PCC £700 Chief constable
Fire authorities	£1,900	£1,500
Pension fund audits	£1,600	£2,000
Other local government bodies (such as combined authorities, national park authorities)	Not specified, as the number of bodies by body type is too small and arrangements are variable	Based on average of approved fee variations by body type

**33** For work on the VFM arrangements commentary it is important to note that:

- the NAO guidance requires the auditor to make a judgement on the work required at each body based on a risk assessment. Where previously approved fee variations for the core work are higher than the proposed benchmark, we expect to consolidate the higher figure recognising that additional work is required;
- where we have not yet received fee variations for individual bodies, or where the audit is moving to a new appointed audit firm from 2023/24, we expect to use the benchmark figure for fee scale consolidation; and
- any work required in addition to the core work on the commentary, for example on specific risks, would continue to be subject to one-off fee variations because the

## Consultation on 2023/24 audit fee scale

work will vary from year to year and the additional fees should not therefore be consolidated into the fee scale.

### Other changes in local audit requirements

- 34** Our fees research has also considered whether it would be appropriate to determine suggested fee ranges or consolidate additional fees into the fee scale for other new requirements, including:
- ISA 315 revised (risks of material misstatement), applicable from 2022/23;
  - ISA 240 revised (auditor's responsibilities relating to fraud), applicable from 2021/22; and
  - IFRS 16 (leasing), applicable from 2024/25.
- 35** The research has concluded that it is premature at this stage to consolidate additional fees into the fee scale for these requirements because:
- the research could not identify a consistent basis for estimating the additional fees needed at this stage in the application of the new requirements;
  - there is expected to be a significant first year effect which it would not be appropriate to consolidate into the fee scale; and
  - the level at which consolidation will be appropriate is likely to be variable depending on the circumstances of individual bodies.
- 36** We therefore propose using the fee variations process to establish a realistic fee level for consolidation into a future fee scale.
- 37** We have also considered the expectation in [NAO auditor guidance](#) that auditors of pension funds should provide IAS 19 assurances under the scope of the Code of Audit Practice to auditors of admitted bodies that are relevant local audit bodies. We propose including an additional fee for this work into the 2023/24 scale fee for each pension fund audit, calculated based on the number of assurances expected for local audit bodies.

### Adjustments for specific opted-in bodies

- 38** As part of our work to update the fee scale we have considered whether there are opted-in bodies which have experienced significant changes in size or complexity or other factors, and assessed whether it is appropriate to make adjustments to the 2023/24 scale fee.
- 39** We propose making a temporary scale fee adjustment in less than 20 cases, but subject to detailed review after the first audit year in order to compare to the actual outcome. We will then determine if the adjustment is correct or requires further refinement for subsequent years.
- 40** Our aim in amending the 2023/24 scale fee in this way is to provide a more realistic scale fee for opted-in bodies.

### Adjustment for the procurement outcome

- 41** PSAA announced the outcome of the procurement for the appointing period 2023/24-2027/28 in October 2022. We advised opted-in bodies to anticipate a major re-set of

## Consultation on 2023/24 audit fee scale

total fees for 2023/24, involving an increase of the order of 150% on the total expected fees for 2022/23, based on the information available at the time, some of which had to be estimated.

- 42 The finalised adjustment required is 151%, reflecting latest information on approved fee variations and confirmed auditor appointments for each firm.
- 43 Calculation of the procurement uplift of 151% also applies to the hourly rates used to calculate fees for additional work, as set out below.

### Additional fee hourly rates

Grade	Hourly rates for audit year 2022/23	Audit fee adjustment to reflect the procurement outcome (uplift by 151%)	Hourly rates for audit year 2023/24 (rounded)
Partner or Director	£165	£249	£414
Senior Manager or Manager	£91	£137	£228
Senior Auditor	£59	£89	£148
Other	£45	£68	£113

For example, an additional fee of £10,000 for audit year 2022/23 would generate a fee of £25,100 for comparable work in audit year 2023/24.

- 44 PSAA sets the fee scale each year based on the income it needs from audit fees to meet the costs of the audit contracts, and its own costs (1.4% of the total). Periodically we return any surplus to opted-in bodies by means of a distribution, once it is clear the surplus is no longer needed to discharge our responsibilities.

## Summary of Proposal

45 In summary, we propose that the fee scale for 2023/24 will be built up as follows:

2023/24 fee scale: proposed elements	
A	The scale fees for 2022/23
Plus:	
B	Fee variations for recurrent additional audit work in prior years not yet included in scale fees
C	Changes in local audit requirements
D	Adjustments at specific bodies for local circumstances
E	Adjustment for the procurement outcome

46 We will write to each individual opted-in body during the consultation period to set out their expected scale fee based on these elements. We have set out below an example of how the scale fee will be made up:

Example		
1)	2022/23 scale fee	£52,140
2)	Add: approved fee variations or estimates for recurring work* not already included	£10,500
3)	Add: changes in audit requirements (VFM arrangements, ISA 540)	£10,000
4)	Add: adjustment for special circumstances (where applicable)	0
5)	2022/23 scale fees plus recurring fees	£72,640
6)	Audit fee adjustment to reflect the procurement outcome (uplift by 151%)	£109,686
Total scale fee for 2023/24		£182,326

\* The categories of work we have included in our review of approved fee variations are: group accounts, pension valuation, PPE valuation, enhanced audit requirements in relation to public interest entities and major local audits, increased FRC challenge, PFI, and investment valuation (pension funds).



## Additional information

### Statement of responsibilities

- 47 The [statement of responsibilities of auditors and audited bodies](#) sets out the expectations on which scale fees are based. The statement effectively represents the terms of engagement between appointed auditors and audited bodies and summarises their respective responsibilities.
- 48 Scale fees are based on the expectation that audited bodies can provide the auditor with complete and materially accurate financial statements and supporting working papers within agreed timeframes. Local fee variations may be required where a body is unable to fulfil these requirements.
- 49 The statement of responsibilities also applies to auditors. Additional audit costs that arise due to auditors not meeting expectations in relation to their responsibilities are ineligible for a fee variation.

### Value added tax

- 50 Individual audit fees under the 2023/24 fee scale do not include value added tax (VAT), which will be charged at the prevailing rate, currently 20 per cent, on all work done.

### New contract management arrangements

- 51 We have strengthened contract management provisions in the 2022 audit services contracts to reflect the changed local audit market and to address feedback from opted-in bodies about audit delivery. It remains the case that, once appointed, auditors exercise their responsibilities independently under local audit legislation and the professional framework.
- 52 Our audit firms are contractually obliged to deliver the audits in accordance with the method statements outlined in their tender responses. Where this does not occur, we have mechanisms we can use to support performance improvement. These measures include:
- firms will be paid when they deliver on four predefined audit milestones (each attracting 25% of the scale fee), rather than on the basis of four quarterly payments as previously;
  - we have introduced KPIs linked to the audit delivery lifecycle and a quarterly contract monitoring review process;
  - there is a review procedure through which we can require a supplier at their own cost to amend its method statement, if it becomes clear that the current one does not satisfy its obligations under the contract; and
  - there is a rectification plan process which we may invoke if the supplier fails to comply with its obligations under the contract.
- 53 We will revisit the actual milestones and KPIs if the expected backlog solution changes the framework. We also recognise that while we have strengthened the contract provisions to reflect changes in local audit, the ultimate sanction of being able to remove



## Consultation on 2023/24 audit fee scale

auditors from appointments remains largely moot as there is no surplus capacity in the local audit market. PSAA is committed to working with all stakeholders to support the changes needed in the local audit system.

### Next steps

- 54 We welcome comments from opted-in bodies and other stakeholders on the proposals outlined in this document. The closing date for comments is noon on Tuesday 10 October 2023.
- 55 Please respond to the consultation using the survey provided:  
<https://www.surveymonkey.co.uk/r/ZS8YK3K>
- 56 Information about this consultation and the 2023/24 fee scale is [available on our website](#).
- 57 If you have any questions about the consultation please send them to:  
[workandfeesconsultation@psaa.co.uk](mailto:workandfeesconsultation@psaa.co.uk).
- 58 We will consider carefully the responses to this consultation in setting the 2023/24 fee scale, which we will publish by 30 November 2023.
- 59 If you have comments about the way the consultation has been conducted, these should be sent by email to [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk).

## AUDIT COMMITTEE WORK PROGRAMME

OCTOBER 2023

Issue and Description of Topic	Current Position Objective	Original Due Date	Revised Date	Resources Required	Contact	*This item may contain Exempt Information
Auditors Annual Report 2021/22	To receive an update from EY (Ernst & Young).	24 Oct 2023				
Internal Audit Progress Report Quarter 2 2023/24	To review and note the report on the work undertaken by Internal Audit at each of their meetings.	24 Oct 2023				
Consultation on 2023/24 Scale of Audit Fees	To review the Consultation on 2023/24 Scale of Audit Fees.	24 Oct 2023				
Statement of Accounts 2022/23	To approve the Statement of Accounts 2022/23.	24 Oct 2023	26 Mar 2024			
Audit Results Report 2022/23	To receive the Council's External Auditors report on the key findings of their audit of the 2022/23 Statement Accounts.	24 Oct 2023	26 Mar 2024			
Final Annual Governance Statement 2022/23 and Letter of Representation	To approve the Annual Governance Statement 2022/23 and Letter of Representation.	26 Mar 2024				
Internal Audit Charter 2024/25	To approve the Internal Audit Charter 2024/25, it sets out the purpose, authority and reporting requirements and is	26 Mar 2024				

Agenda Item 8

	approved annually by the Senior Leadership team and Audit Committee.					
Internal Audit Plan 2024/25	To present the Internal Audit Plan for 2024-25 in accordance with the requirements of the Public Sector Internal Audit Standards.	26 Mar 2024				
Risk Management Update	To receive a report that that updates the Committee on the effectiveness of the Council's risk management framework.	26 Mar 2024				
EY Audit Planning Document 23/24	The purpose of this report is to provide the Audit Committee with the 2023-24 External Audit Planning Report.	26 Mar 2024				
Internal Audit Progress Report Quarter 3 2023/24	To review and note the report on the work undertaken by Internal Audit at each of their meetings.	26 Mar 2024				
Annual Audit Letter 2022/23	The purpose of this report is to provide the Council's External Auditors Annual Audit letter with the conclusions of the 2022/23 audit to those charged with governance.	July 2024				
Audit Committee End of Year Report 23/24	An end-of-year report on the work of the Audit Committee for 23/24	July 2024	Minutes stated due Apr 24.			
Internal Audit Annual Report and Opinion	To note the Internal Audit Report and Opinion for 23/24.	July 2024				

<b>Internal Audit Progress Report Quarter 4 2023/2024 and Quarter 1 2024/25</b>	<b>To review and note the report on the work undertaken by Internal Audit at each of their meetings.</b>	<b>July 2024</b>				
<b>Draft Annual Governance Statement 2023/24</b>	<b>To approve the draft annual governance statement 2023/24.</b>	<b>July 2024</b>				