

# Public Document Pack



## NOTICE OF MEETING

<b>Meeting:</b>	<b>Audit Committee</b>
<b>Date and Time:</b>	<b>Tuesday 26 March 2024 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 4 - 6)**

The minutes of the meeting held on 24 October 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 AUDIT (EY) VALUE FOR MONEY REPORT (Pages 7 - 34)**

To receive the Council's External Auditors report on the key findings of their value for money work for 2022/23.

### **6 EXTERNAL AUDIT (EY) PLANNING DOCUMENT 23/24 (Pages 35 - 88)**

The purpose of this report is to provide the Audit Committee with the 2023-24 External Audit Planning Report.

### **7 INTERNAL AUDIT PROGRESS REPORT QUARTER 3 2023/24 (Pages 89 - 101)**

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

### **8 INTERNAL AUDIT CHARTER 2024/25 (Pages 102 - 114)**

To approve the Internal Audit Charter 2024/25, it sets out the purpose, authority and reporting requirements and is approved annually by the Senior Leadership team and Audit Committee.

### **9 INTERNAL AUDIT PLAN 2024/25 (Pages 115 - 124)**

To present the Internal Audit Plan for 2024-25 in accordance with the requirements of the Public Sector Internal Audit Standards.

### **10 GOVERNMENT'S PROPOSALS TO ADDRESS THE LOCAL AUDIT BACKLOG IN ENGLAND**

Members to receive a verbal update on the proposals and discuss the impact on the Committee's work programme.

### **11 AUDIT COMMITTEE WORK PROGRAMME (Pages 125 - 127)**

**Date of Publication: Monday 18 March 2024**

## **AUDIT COMMITTEE**

**Date and Time:** Tuesday 24 October 2023 at 7.00 pm

**Place:** Council Chamber

**Present:**

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

**In attendance:**

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

### **10 MINUTES OF THE PREVIOUS MEETING**

The minutes of 25 July 2023 were agreed and confirmed and signed as a correct record.

### **11 APOLOGIES FOR ABSENCE**

No apologies received. Cllr Engström joined the meeting virtually.

### **12 DECLARATIONS OF INTEREST**

No declarations made.

### **13 CHAIRMAN'S ANNOUNCEMENTS**

No announcements.

### **14 EXTERNAL AUDITOR'S ANNUAL REPORT 2021/22**

Mr Suter from Ernst and Young presented members with the final Audit Results report for the year ending 31 March 2022.

Members queried the valuation of property, plant and equipment conclusion. Mr Suter explained that incorrect income figures led to several assets being misstated. These have now been corrected.

Members queried the training of Councillors finding, it was noted that this finding pre-dates this Committee's current membership but training also assists Members to fully understand the roles and functions of the Committee to enable it to achieve its objectives.

The report of the External Auditors was noted.



## **15 INTERNAL AUDIT PROGRESS REPORT QTR 2, 2023-24**

The Committee received a report from Southern Internal Audit Partnership on the work undertaken at each of their meetings. The report covers the second quarter of 2023-2024. Mr Pitman highlighted strong progress made since the report was submitted and expressed confidence in their ability to complete the work on time.

Members queried progress in relation to IT controls, procurement and planning and performance, highlighting the importance of these areas of work. It was explained that these audits were undertaken by the previous auditors and were incomplete. Work is being undertaken to evidence the implementation of the recommendations in relation to planning and performance to a level that provides assurance to the Auditor. The Auditor has agreed to finish IT Controls and Procurement in quarter 3.

The issue of planning performance generally was raised, it was stated that this should and is being reported through Overview and Scrutiny Committee. The importance of the Committee remaining within remit was emphasised.

### **DECISION**

The Committee noted the report.

## **16 CONSULTATION ON 2023/24 SCALE OF AUDIT FEES**

The Committee reviewed the Consultation on 2023/24 Scale of Audit Fees.

Mr Clark explained the background to the consultation and the main areas included in the response he submitted. This included the impact of a 151% increase in costs, further hidden costs deriving from additional audit requirement beyond our control.

Members discussed:

- the scale of the issues within the Audit field
- the level of audit scrutiny
- the tender process
- the complex network of auditing bodies and differing requirements
- potential use of internal resource for valuations.

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

The Committee considered the Audit Committee Work Programme. Mr Clark emphasised that additional work can be added to the programme by the Committee.

The meeting closed at 7.34 pm

# Hart District Council

## Value for Money Interim Report

Year ended 31 March 2023

11 March 2024

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Agenda Item 5



11 March 2024

Hart District Council  
Civic Offices  
Harlington Way  
Fleet GU51 4AE

Dear Audit Committee Members

Value for Money Report

We are pleased to attach our interim commentary on the Value for Money (VFM) arrangements for Hart District Council. This commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. The National Audit Office (NAO) issued a consultation on 8 February 2024 seeking views on changes to the Code of Audit Practice (the Code) to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements. The consultation proposes to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. At this stage, we are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 26th March 2024.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

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01 Executive Summary



02 Value for Money Commentary



03 Appendices



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





BOARDROOM

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# 01 Executive Summary



# Executive Summary

## Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditor's provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this interim commentary is to explain the work we have undertaken and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this interim report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings to date from our planned procedures; and
- Summary of arrangements over the period covered by this report (Appendix A).

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report once the audit report has been issued for 2022/23.



# Executive Summary (continued)

## Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
  - reports from internal audit which may provide an indication of arrangements that are not operating effectively;
  - our review of Council committee reports;
  - meetings with the Executive Director of Corporate Services and S151 Officer;
  - information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements.

As a result, we have no matters to report by exception at this stage of the audit and we will update our interim reporting as part of issuing the final commentary in the Auditor's Annual Report later in the year.



# Executive Summary (continued)

## Reporting

Our interim commentary for 2022/23 is set out over pages 10 to 12. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2022/23. We include within the VFM commentary below the associated recommendation we have agreed with the Council.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Auditor’s Annual Report and have been updated for 2022/23.

In accordance with the NAO’s 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body’s arrangements.

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

# Executive Summary (continued)

## Independence

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

There are no relationships from 01/04/2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

During the year to 31 March 2023 we have undertaken the following non-audit service, against which we have identified the potential threats to our independence and adopted the safeguards as shown below.

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Description of service	Related independence threat	Safeguards adopted
Housing Benefit subsidy claim	Self interest	The NAO's AGN01 excludes HBAP from the PSAA and ethical standards fee caps because this service is required by the awarding central government department. In addition, the fees for this work are relatively limited.
	Self review	No advice will be given in relation to accounting treatment. The report we provide will be given solely for the purposes of the agreed upon procedures engagement and will not be used or relied upon for any other purposes.

## EY Transparency Report 2023

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2023:

[EY UK 2023 Transparency Report | EY UK](#)



## 02 Value for Money Commentary

# Value for Money Commentary

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

**No significant weakness identified**

The Medium-Term Finance Strategy (MTFS) is reviewed annually and involves discussions with the Chief Executive (CE), Executive Director of Corporate Services and Finance Manager 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 3-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 the local community. The ideas arising were moderated by the Chief Executive, Executive Director 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.

The MTFP is regenerated every year with the MTFP updated and reported to Cabinet in February 2023, and this set out the medium term prospects for the Council's finances to 2026/27. The Council produced a balanced budget for 2022/23 as well as 2023/24.

The Council's Medium Term Financial Strategy is set within the context of the national economy, the public expenditure plans detailed in the government's Spending Review and national legislation.

The main assumptions used in for each of the significant areas in MTFP are summarised below, which we assessed to be reasonable assumptions:

- Pay increase allowance of 10% per annum, along with an allowance for incremental increases.
- Pension cost increases in line with notified changes as guided by the outcome of the next triennial valuation of the pension fund.
- A general annual inflation allowance of 10% in 2023/24 budget but with significant uncertainty going forward
- Contracted services' inflation allowances reflect the inflation clauses of their contracts.
- Base interest rate assumption of 2% on Treasury management investments in the 23/24 Budget.
- Use of all New Homes Bonus receivable to support the revenue budget
- Zero Revenue Support Grant, noting that negative grant has been deferred, not cancelled, and could cost the Council's budget £560k pa.
- Business rate income forecast to be at the baseline level over the forecast period due to low growth forecast and declining rateable value.
- Continuation of the current council tax support scheme.

Progress on delivery of the plan is reported to the Cabinet through the MTFS. The Revenue and Outturn presented to Cabinet on 3rd 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
- Contractual inflation and potential cuts in government funding were likely to have a more negative impact on the outturn for 2023/24

**Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services**



# Value for Money Commentary (continued)

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

No significant weakness identified

The Council published their draft 2022/23 financial statements for audit on the 31 May 2023, in line with the Audit and Accounts regulations, and advertised and held an inspection period for members of the public in line with these regulations. We confirm that the 2022/23 draft financial statements were arithmetically correct, agreed to the data in the general ledger, and prepared in line with the content required by the CIPFA Code. The Council has carried out bank reconciliations during the year. Therefore, appropriate arrangements for financial reporting were in place during 2022/23.

The Council has an effective corporate risk management framework embedded. The elements of the Council's risk management framework are to:

- ▶ Ensure that responsibilities for managing individual risks are clearly allocated;
- ▶ Align the risk management strategy and policies on internal control with achieving objectives; and
- ▶ Ensure an Audit Committee which is independent of the executive and accountable to the Council:
  - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment
  - makes recommendations that are listened to and acted upon

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 risk register is reviewed throughout the year by the Cabinet, Executive Directors and the Audit Committee.

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.

Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure 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.

To ensure effective leadership throughout the Council, members and officers work together to deliver agreed plans with defined functions and roles. The Council has adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers. These codes of conduct are communicated as part of the induction process.

**Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to make informed decisions and properly manage its risks.**

# Value for Money Commentary (continued)

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 weakness identified

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 Risk Register, Budget monitoring reports etc.

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 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.**





# 03 Appendices



# Appendix A - Summary of arrangements

## Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

### Reporting criteria considerations

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

### Arrangements in place

The Council has a robust process that continually reviews local and national financial pressures and responds to these accordingly. Regular meetings are held with heads of services, the Senior Leadership Team and with Cabinet members. Any significant financial pressures to deliver the Council Plan are raised and mitigated with identified savings, or, if an earmarked or risk reserve exists, then a draw from reserves may be considered in accordance with financial regulations, which is then reported in the quarterly monitoring reports to Cabinet. Future year pressures are considered as part of the Medium Term Financial Strategy ('MTFS') and reported to Cabinet and Council meetings as part of the budget setting process. Regarding financial planning, the Council works to refine budgets and the MTFP to respond to cost pressures as they emerge, and recognises that effective financial planning remains difficult due to continuing uncertainties in the funding that will be made available to councils. The Council reviews its budgetary position annually and produces a rolling three-year plan, known as the Medium-Term Financial Strategy (MTFP). This plan considers the financial climate at both the local and national level together with available resources and budgetary pressures in arriving at a financial strategy. The MTFP is also regularly refreshed to ensure that the forecast position of the Council's is accurately reflected in forward projection.

The budget for 2022/23 was approved by the Council in February 2022 and the council tax requirement (which is the net budget met by council tax) for 2022/23 was set at £7.8m.

#### Medium Term Financial Plan (MTFP):

The Council produces an MTFP every year for the following three years on a rolling basis. The strategy that the Council follows involves planning ahead of time, releasing resources in advance of need and using those resources to help fund transformational change. The MTFP produced supports the wider objectives of the Council both in the short and longer term. These include:

- ▶ Provides a framework for managing resources in the medium term to deliver the corporate plan.
- ▶ Demonstrates that sufficient resources will be available to meet The Council's objectives and priorities, particularly in the delivery of value for money.
- ▶ Looks ahead to the longer term to protect and help plan sustainable services within an extremely challenging external economic and funding environment.
- ▶ Strengthens The Council's financial resilience and manage volatility and risk, including maintaining an adequate level of reserves.
- ▶ Anticipates financial pressures and identify potential ways to balance The Council's budget including through efficiency measures.



# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

### Reporting criteria considerations

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 (continued)

### Arrangements in place

The MTFP is regenerated every year with the MTFP updated and reported to Cabinet in February 2023, and this set out the medium term prospects for the Council's finances to 2026/27. The Council produced a balanced budget for 2022/23 as well as 2023/24.

The Council's Medium Term Financial Strategy is set within the context of the national economy, the public expenditure plans detailed in the government's Spending Review and national legislation.

The key impacts of the national context on the Council's Medium Term Financial Strategy are

- The Council should be prepared for an extended period of government funding reductions throughout the medium-term period and beyond and therefore should continue to seek to reduce costs and generate additional revenues wherever possible in order that core services can be delivered on a sustainable basis.
- The Council may face increased demand on its services and budgets as a result of partner organisations' responses to reductions in government funding so it must maintain good communication and engagement with partners.
- There has been a significant risk transfer from central government to local government as a result of the legislative changes so the Council should anticipate, prepare and resource effectively.
- The longer-term uncertainty and increased risk and volatility associated with the new Business Rate Retention Scheme and the fair funding review.
- The impact on business rates of the current economic volatility and slow recovery of income to pre-Covid levels including customer activity shifting affecting car parks and leisure centres.

The main assumptions used in for each of the significant areas in MTFP are summarised below:

- Pay increase allowance of 10% per annum, along with an allowance for incremental increases.
- Pension cost increases in line with notified changes as guided by the outcome of the next triennial valuation of the pension fund.
- A general annual inflation allowance of 10% in 2023/24 budget but with significant uncertainty going forward
- Contracted services' inflation allowances reflect the inflation clauses of their contracts.
- Base interest rate assumption of 2% on Treasury management investments in the 23/24 Budget.

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

### Reporting criteria considerations

### Arrangements in place

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 (continued)

- Use of all New Homes Bonus receivable to support the revenue budget
- Zero Revenue Support Grant, noting that negative grant has been deferred, not cancelled, and could cost the Council's budget £560k pa.
- Business rate income forecast to be at the baseline level over the forecast period due to low growth forecast and declining rateable value.
- Continuation of the current council tax support scheme.

#### Annual Budget Setting Process:

A budget is prepared and approved annually, ahead of the financial year. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds. The budget will be approved by the Council and proposed by the Cabinet on the advice of the Executive Director of Corporate Services (S151 Officer).

The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Executive Director of Corporate Services, ahead of the preparation of the revenue budget and capital programme.

The Executive Director of Corporate Services is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis. The Council may amend the budget and capital programme or ask the Cabinet to reconsider it before approving it.

We note that the Council has a good record of delivering against its financial strategies and budgets by containing expenditure within budgets and achieving early savings. The success of these strategies indicates that the Council are focused on identifying any potential risks and implementing mitigations to address these risks in order for them not to be a financial burden in the future.

We consider that the Council is having adequate General Fund and Earmarked Reserves to support fluctuations in normal business if required.

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

### Reporting criteria considerations

### Arrangements in place

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

The saving targets and other headline issues are agreed as part of the MTFP. The Council will also budget for contingencies to mitigate non-delivery of savings. This is completed using a risk-based approach. Savings targets for the Council are then allocated to individual Directorates and are monitored and reported regularly as part of ongoing internal reporting. A key component of the Council's forward planning as part of the annual refresh of the MTFP is the forward projection of Usable Reserves. As at 31 March 2023 the Council held the following Usable Reserves: General Fund Balances of £8.3m and Earmarked Reserves of £23.4 m.

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

The Council's saving plans and initiatives focus around the four strategic aims, which bring together a number of their priorities forming an overarching framework for their services. The Council recognises that its ability to continue to deliver front line services will depend on its capacity to generate new funding streams, streamline the way that residents access services and support and encourage self-sufficiency, whilst protecting the most vulnerable. Their focus is on targeting resources at the most vulnerable people while becoming more efficient in the delivery of its services.

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 managers and their BPs to ensure that funding is built in to deliver the statutory priorities on a monthly basis.

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

The Corporate Plan is the medium-term strategic policy document which sets out the general direction, key priorities and activities for the Council and informs the use of its resources. The four priorities set out in the Corporate Plan are:

- Planet - Sustainability and Climate Emergency: A carbon neutral and climate resilient council by 2035
- People - fair treatment for all, help for those in need, and a sustainable economy that makes Hart a great place to live and work
- Place - delivering warmer, better homes in sustainable locations that people can afford to live in
- Building a Resilient Council - Your services: getting it right first time and delivering what matters to you

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

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

### Reporting criteria considerations

### Arrangements in place

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

Throughout the financial planning i.e. annual budget and MTFP processes, consideration of other plans such as capital and treasury management also take place. The Capital and Treasury Management strategy also forms part of the annual budget setting process with the strategy being taken to Cabinet for approval at the same time as the revenue budget. The Capital and Treasury Management gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. All of the Council's financial strategies and planning interlink and are presented in a way that informs clear and effective decision making.

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 Executive Director 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.

The Council recognises pressure on its funding and the requirement of generating income from commercial sources. We note that that the Council 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.

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 cyber security.

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.



# Appendix A - Summary of arrangements

## Governance

We set out below the arrangements for the governance criteria covering the year 2022/23

### Reporting criteria considerations

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

### Arrangements in place

The Council has an effective corporate risk management framework embedded. The elements of the Council's risk management framework are to:

- ▶ Ensure that responsibilities for managing individual risks are clearly allocated;
- ▶ Align the risk management strategy and policies on internal control with achieving objectives; and
- ▶ Ensure an Audit Committee which is independent of the executive and accountable to the Council:
  - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment; and
  - makes recommendations that are listened to and acted upon

The risk register is reviewed throughout the year by the Cabinet, Executive Directors and the Audit Committee.

The Council maintains an internal audit 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, see Internal audit plan at <https://hart.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=334&Ver=4> which was presented in March 2022. Progress on delivering the plan and the latest findings arising are reported to each meeting of the Audit Committee, see latest progress report for 22/23 <https://hart.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=615&Ver=4>.

The results of this work is used in the Annual Head of Audits Opinion report along with other sources of assurances on internal control available that year, to provide the Audit Committee an annual assurance opinion. As well as the Internal Audit service, the Councils also has an anti-fraud and corruption policy that makes it the responsibility of each employee to be aware of the possibility that fraud, corruption and theft may exist in the workplace and be able to share their concerns with management, including how to report potential fraud or corruption.

The scope of the work carried out by internal audit includes testing the adequacy of controls to prevent or detect fraud or error. The reports include overall assurance opinions for each audit and highlight any weaknesses in controls designed to prevent and detect fraud and error (amongst other things). The Annual Head of Audit's report also highlights any income or expenditure errors (including the value) which have been identified from audit testing. The review concluded in reasonable assurance. This demonstrates that the Council responds to the risks identified.

# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23

### Reporting criteria considerations

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)

### Arrangements in place

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.  
Southern Internal Audit Partnership (SIAP) provides Internal audit service to the Council since 1 April 2023.

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 to respective stakeholders, 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 Executive Director 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 details of budget monitoring are documented and circulated to relevant business partners and leadership team.

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 Executive Director of Corporate Services pulls together the overall budget proposed and updates the 4-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

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23

### Reporting criteria considerations

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

### Arrangements in place

Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed.

Initially an overspend is identified between the Budget Holder and their Business Partner. Where an overspend occurs it may be possible to manage this by use of a Budget Virement following appropriate approvals. Scheme of Delegation mitigates against overspending to date, in such that increasing levels of expenditure (Purchase Orders and Contracts) require approval from officers with higher levels of seniority. PO's or Contracts over £100k requires approval from Executive Director of Corporate Service (S151 Officer) and the Chief Executive Officer.

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. We looked at the Report that went to Cabinet in August 2023 detailing the Revenue performance for 22/23.

- ▶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
- ▶Contractual inflation and potential cuts in government funding were likely to have a more negative impact on the outturn for 2023/24

We also looked at the Treasury Management report and noted-

- ▶Due to Investment concerns, both counterparty risk and comparatively low investment returns, no borrowings was undertaken during the year.
- ▶The Council has not borrowed more than, or in advance of its needs.

We note that from the review of the minutes the following arrangements are in place. The Executive Director of Corporate Services reports to the Cabinet and Council on regular basis as part of an overall performance management reporting process and this is included within the quarterly budget monitoring of the Council. The monitoring report includes the actual expenditure against the budget and monitors the expenditure. This furthermore 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.



# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23

### Reporting criteria considerations

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 (continued)

### Arrangements in place

Finally, we noted that budget holders are provided with on-going training to provide them with the necessary knowledge and skills to undertake this role. During 22/23, 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.

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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 Council has a number of arrangements in place to ensure that appropriate decisions are made. Council decisions may be made either at Full Council meetings, at committees of Council, at a meeting of all executive members i.e. 'Cabinet' or by individual executive members at 'decision days'.

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

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



# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23

### Reporting criteria considerations

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)

### Arrangements in place

The Monitoring Officer and Executive Director of Corporate Services (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. We note that the frequency also depends on requirements and importance of discussing areas under the Audit Committee's remit. In 22/23, the Audit committee met 4 times.

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 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.

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.

Information Governance:

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

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23

### Reporting criteria considerations

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)

### Arrangements in place

To ensure effective leadership throughout the Council, members and officers work together to deliver agreed plans with defined functions and roles. These roles and responsibilities are set out in the Constitution and in particular looks at how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Many of these processes are required by statute and regulations by Governmental and other bodies (e.g. CIPFA) while the Council has determined others locally.

The Council has adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers. These include codes of conduct for both officers and members and cover conflicts of interest and gifts and hospitality and appropriate policies for partnership working.

These codes of conduct are communicated as part of the induction process. All staff and members are provided with a copy of the respective codes of conduct when joining the Council and are required to read and comply with them. Ongoing awareness training is made available via the Council's intranet. There are appropriate policies and procedures for ethical and behavioural standards, declaration of and protocol for conflicts of interest, and security practices that are adequately communicated throughout the organisation.

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23

### Reporting criteria considerations

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

### Arrangements in place

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 Executive Director 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 in Section 1 and 2 above.

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.

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

Similarly, the Council amend the management arrangements for the SERCO waste contract during the previous year, and the lead role transferred from HDC to Basingstoke & Deane BC.

Performance data:

From a procurement/contracts perspective, 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.

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23

### Reporting criteria considerations

### Arrangements in place

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

For 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.

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

The Council uses a range of mechanisms, both formal and informal, to evaluate its performance in delivering services, and for identifying and delivering service improvement opportunities. It starts from the top, with a clear expectation that the services provided should be delivered in a way that puts the customer at the heart of the process. This is further evaluated through feedback options on various services that Hart DC provide through an online customer form -

<https://www.hart.gov.uk/feedback>.

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 Risk Register, 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 with the Q2 reports shared in the meeting held on 17th October 2023.

<https://hart.moderngov.co.uk/ieListDocuments.aspx?CId=145&MId=595&Ver=4>

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.



# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23

### Reporting criteria considerations

### Arrangements in place

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 (continued)

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. From 1/4/23 the finance function as well moved from Mendip DC to in house and also the I.T functions are back in-house since October 2023. 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 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 its partners. The information is also taken to the relevant Council meetings to engage stakeholders at the appropriate time.

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

Standing Orders on Procurement and Contracts are set out within the Constitution. This includes the procedures and statutory requirements in terms of the procurement of services. The Council has also developed a Procurement Strategy which sets the framework in which Hart District Council will work to ensure that procurement delivers value for money across all services and directly contributes to the achievement of their strategic goals.

Procurement procedures are in place and are available to officers via SharePoint. These procedures include a step-by-step guide to 'Buying Something'

A Contract Register is in place. The register is published on the HDC website, at [Contracts Register - HDC Website](#)

A number of standard procurement forms are available to officers. These documents are held on SharePoint.

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.

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# Hart District Council Audit planning report

Year ended 31 March 2024

11 March 2024

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Building a Better  
working world

Agenda Item 6



Audit Committee  
Hart District Council  
Civic Offices  
Harlington Way  
Fleet GU51 4AE

11 March 2024

Dear Audit Committee Members

Audit planning report

I am very pleased to be taking over responsibility for leading our external audit of Hart District Council for 2023/24. Attached is our audit planning report for the forthcoming meeting of the Audit Committee. The purpose of this report is provide the Audit Committee of Hart District Council (the Council) with a basis to review our proposed audit approach and scope for the 2023/24 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for the Council. We have aligned our audit approach and scope with these. The report also considers the likely impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The joint statement on the update to proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done it will impact the level of resource needed to discharge our responsibilities. We will consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the audit committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

(continued)



We draw Audit Committee members and officers attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix A).

This report is intended solely for the information and use of the Audit Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you on 26 March 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andrew Brittain

Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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





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# 01

# Overview of our 2023/24 audit strategy

# Overview of our 2023/24 audit strategy

## Context for the 2023/24 audit - Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

DLUHC has launched a consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic financial statements and for the financial years 2023/24 to 2027/28.

- ▶ The National Audit Office (NAO) has launched a consultation on amending the Code of Audit Practice to :
  - ▶ Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
  - ▶ Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.
- ▶ The Chartered Institute of Public Finance and Accountancy (CIPFA) [is expected to / has launched] consultation on temporary changes to the accounting code for preparation of the financial statements. The proposed temporary changes to the financial reporting framework have an impact on both how the financial statements are prepared and our audit procedures necessary to gain assurance.

As a result of the system wide implementation of backstop dates *it is likely we will disclaim the opinion on the Council's 2022/23 accounts*. The proposed disclaimer of the Council's 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase.

The changes proposed by the consultations therefore will have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer. We have highlighted those areas where we consider it most likely that the proposed measures will impact our audit approach and scope as part of this Audit Planning Report.





# Overview of our 2023/24 audit strategy

## Responsibilities of Council management and those charged with governance

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Council's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Council resources are readily available to support the audit process, within agreed deadlines. The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done, we will:

- ▶ Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- ▶ Consider the use of other statutory reporting powers to draw attention to weaknesses in Council financial reporting arrangements where we consider it necessary to do so.

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Seek a fee variation for the cost of additional resources needed to discharge our responsibilities. We have set out this and other factors that will lead to a fee variation at Appendix B of this report together with, at Appendix A, paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements.

Impact the availability of audit resource available to complete the audit work in advance of any applicable backstop dates.

# Overview of our 2023/24 audit strategy

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

## Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud Risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of Investment Properties	Significant risk	No change in risk or focus	The fair value of Investment Property (IP) has previously mainly been attributed to one asset, however the Council purchased a further investment property in 21/22 financial year which has increased the total year end balance significantly and as 31/3/23 it amounts to £17m. This represents significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet which triggers the use of experts by management and EY likewise. Although the economic conditions may now be considered more stable, there are still uncertainties with regards to valuations impacting Investment Properties, which are held at Fair Value. With a greater value of properties held by the Council, we therefore have the risk on investment properties for valuations as at 31 March 2024 too.
Valuation of Property, Plant and Equipment (PPE)	Significant risk	Change in risk or focus	The fair values of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges as well. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is a change from PY in terms of classifying the risk from an area of audit focus to significant risk. This is due to the numbers of errors in this area noted during the 21/22 audit, which were all corrected by management. As the valuation is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements.

# Overview of our 2023/24 audit strategy

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

## Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Pension Liability Valuation	Inherent risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>
IFRS 16- Leases	Inherent risk	New Area of audit focus	<p>IFRS 16 Leases is being implemented in Local Government from 01 April 2024. As such, the Council is required to prepare readiness assessment disclosing known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.</p>

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## 2021/22 issues no longer assessed as risks for 2023/24

The following items appeared in our 2021/22 audit plan, and are no longer assessed as risks for our 2023/24 audit:

- Accounting for Covid-19 grants
  - This was assessed to be an inherent risk in the prior year due to the second year of accounting for the Covid-19 related grants. The Authority received a series of grants from the UK government during 2020/21 in support for the pandemic crisis management and continued to receive funding in 2021/22. We identified the accounting treatment of those grants as an area of focus since this was a significant change in the funding streams for accounting by the Council as well as due to the number of differences identified in the previous year.
  - Following our completion of testing in 2021/22, where we were satisfied with the recording of Covid-19 related grants in the accounts, we consider the risk of material misstatement in this area to be sufficiently reduced.

The outcome of consultation on the planned measures to address local audit delays and related proposed temporary changes to CIPFA's Code of Practice on Local Authority Accounting are likely to impact our assessment of audit risks and our response to them. We will continue to keep the Audit Committee updated on our assessment of any changes to audit risk as this becomes clearer.

# Overview of our 2023/24 audit strategy

## Council Materiality

### Planning materiality

£695k

Materiality has been set at £695k, which represents 2% of 2022/23 gross expenditure on provision of services.

### Performance materiality

£521k

Performance materiality has been set at £521k, which represents 75% of materiality.

### Audit differences

£35k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £35k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

The outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the Council's 2022/23 financial statements and any guidance subsequently issued may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.



# Overview of our 2023/24 audit strategy

## Audit scope

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

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 3.

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

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

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

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

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

Taking the above into account, and as articulated in this Audit planning report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". Therefore to the extent any of these or any other risks are relevant in the context of the Council's audit, we set those within this Audit planning report and we will continue to discuss these with management as to the impact on the scale fee.



# Overview of our 2023/24 audit strategy

## Audit scope (Cont.)

### ***Effects of climate-related matters on financial statements***

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

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

### ***Audit scope and approach***

We intend to take a fully substantive audit approach

The Government proposals to re-establish the local authority framework on a more sustainable basis and the outcome of the related consultations are likely to have an impact on the scope of the audit. In particular, where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase. We draw your attention to the audit scope section 5 of this audit plan where we set out our current understanding of some of the likely impact of the proposals on our scope and approach for your 2023/24 audit. We will continue to provide updates on the impact of these changes to the Audit Committee where necessary to do so.

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# Overview of our 2023/24 audit strategy

## Value for Money

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

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

We will provide a commentary on the Council's arrangements against three reporting criteria:

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

The commentary on the Council's value for money arrangements will be included in the Auditor's Annual Report.

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## Timeline

A timetable has been agreed with management to complete the audit by end of Sept 2024. In Section 07 we include a provisional timeline for the audit. All parties need to work together to ensure this timeline is adhered to.

## Key Audit Partner and senior audit team



### Partner

Andrew Brittain is your Audit Partner and will sign the opinion of the Council. He will ensure that your Audit Committee and senior management benefit from the best of our skills and insight from our local government sector experience and network. Andrew will meet regularly with your senior finance team, making sure you are sighted on audit progress and risks, and being up-front in any communications. He will drive our audit quality and focus on continuous improvement.

Throughout his career, Andrew has collaborated with various institutions, providing external audit services in Local and Central Government, as well as charities and corporate subsidiaries. His experience spans organisations of varying sizes and complexities.



### Manager

Preeti is your engagement manager and will have primary responsibility for all operational matters in respect of the entity. She will work closely with Andrew to ensure we deliver on our commitment to the highest quality audit.

She manages audit teams effectively to complete high quality work for deadlines. Preeti is passionate about the LG, she cares about her work and ensuring that she and the team deliver to both client and regulatory expectations.





## 02 Audit risks



# Our response to significant risks

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

## Misstatements due to fraud or error\*

### What is the risk?

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

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

### What will we do?

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud
- ▶ Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions)
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud
- ▶ Determining an appropriate strategy to address those identified risks of fraud
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- ▶ Undertake procedures to identify significant unusual transactions
- ▶ Consider whether management bias was present in the key accounting estimates and judgments in the financial statements

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

# Our response to significant risks

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

## Inappropriate capitalisation of revenue expenditure\*

### Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

- ▶ Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
- ▶ Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so.
- ▶ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE), Investment Property (IP) additions and REFCUS in the financial statements.

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

### What will we do?

- ▶ Test Property, Plant and Equipment (PPE), Investment Property (IP) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- ▶ Assess whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred.
- ▶ Consider whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- ▶ Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources.
- ▶ Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

# Our response to significant risks

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

## Valuation of Investment Properties

### Financial statement impact

Misstatements that occur in relation to valuation could affect the year end carrying value of assets valued by the Council as at 31 March 2024.

### What is the risk?

The fair value of Investment Property (IP) has previously mainly been attributed to one asset, however the Council purchased a further investment property in 21/22 financial year which has increased the total year end balance significantly and as 31/3/23 it amounts to £17m. This represents significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet which triggers the use of experts by management and EY likewise. Although the economic conditions may now be considered more stable, there are still uncertainties with regards to valuations impacting Investment Properties, which are held at Fair Value. With a greater value of properties held by the Council, we therefore have the risk on investment properties for valuations as at 31 March 2024 too.

### What will we do?

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

# Our response to significant risks

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

## Valuation of Property, Plant and Equipment (PPE)

### Financial statement impact

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Misstatements that occur in relation to valuation could affect the year end carrying value of assets valued by the Council as at 31 March 2024.

### What is the risk?

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

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

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

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

### What will we do?

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre, or assessing comparative market information);
- ▶ Challenge key assumptions used by the valuers;
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers;
- ▶ Review PPE assets not subject to valuation in 2023/24 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider the potential impact of current economic environment on valuation uncertainties while also evaluating the need to involve our internal specialist valuations team;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.



# Other areas of audit focus

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

## What is the risk/area of focus, and the key judgements and estimates?

### Pension Liability Valuation (inherent risk)

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2023 this totalled £5.4 million.

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

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

## Our response: Key areas of challenge and professional judgement

We will:

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

## What else will we do?

We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

# Other areas of audit focus

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

## What is the risk/area of focus, and the key judgements and estimates?

### IFRS 16- Leases (inherent risk)

IFRS 16 Leases is being implemented in Local Government from 01 April 2024.

IFRS 16 eliminates the operating/finance lease distinction and imposes a single model geared towards the recognition of all but low-value or short term leases. The proposals arise partly from the IASB's view that:

disclosures around operating lease commitments have lacked prominence and tended towards understatement; and even in leases where the underlying asset is not acquired for its whole useful life, the lessee nevertheless acquires an economic right to its use, along with obligations to make good on minimum lease payments.

These will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability.

As such, the Council is required to prepare readiness assessment disclosing known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

## Our response: Key areas of challenge and professional judgement

IFRS 16 - leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. As such LG bodies will need to embed the new standard in to systems and processes to ensure continued compliance

We will:

- ▶ Evaluate the reasonableness assessment carried out by the Council
- ▶ Review the disclosures made within the Council's financial statements in relation to IFRS 16 - Leases.
- ▶ Disclosures should be in line with IAS 8 and will be required :
  - a) the fact the standard has not yet been implemented,
  - b) Disclosing known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

## What else will we do?

We will consider any information available at the time we undertake our work after production of the Council's draft financial statements.

We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.





# 03 Value for Money risks

# Value for Money

## Council's responsibilities for value for money

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

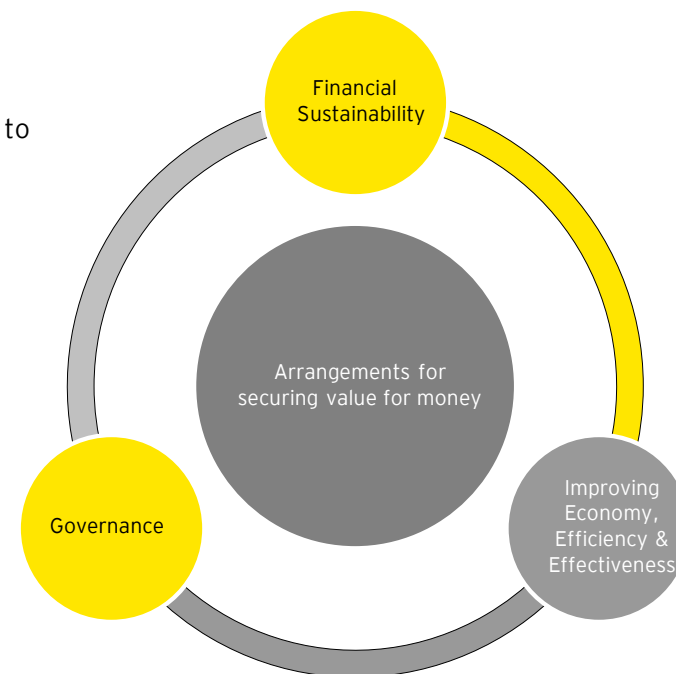
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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

## Auditor Responsibilities

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

The specified reporting criteria are:

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





## Planning and identifying risks of significant weakness in VFM arrangements

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

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

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

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

- ▶ Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- ▶ Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- ▶ Leads to - or could reasonably be expected to lead to - unlawful actions; or

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

We should also be informed by a consideration of:

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



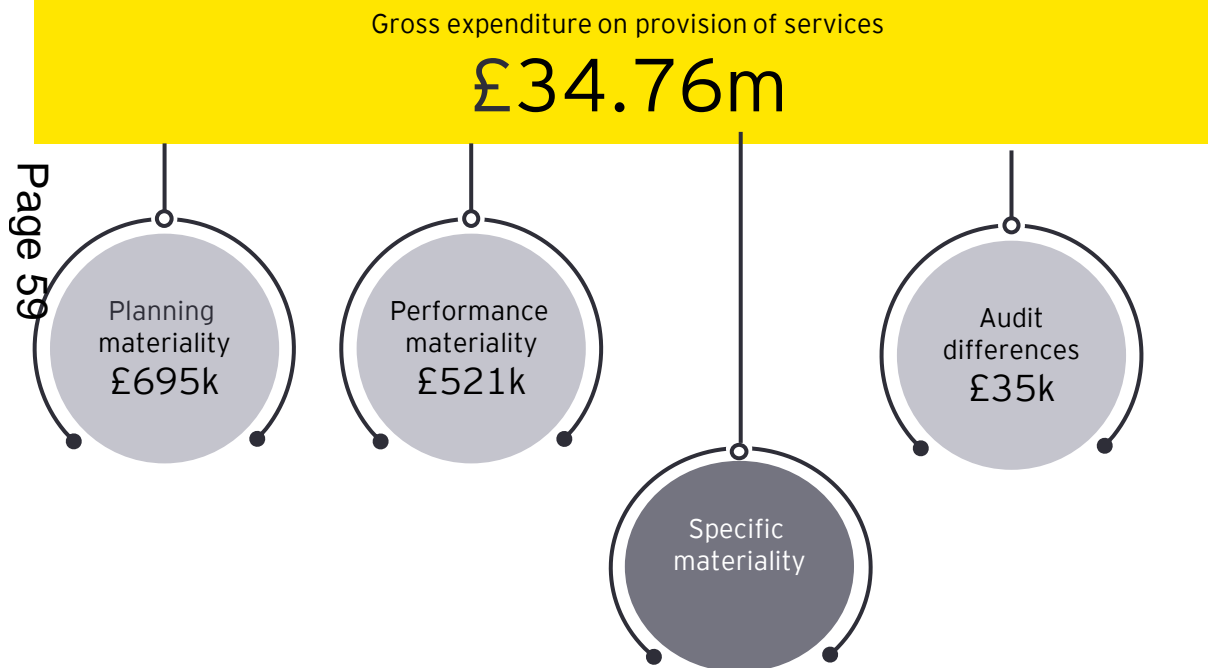
# 04 Audit materiality



# Materiality

## Council materiality

For planning purposes, materiality for 2023/24 has been set at £695k. This represents 2% of the Council's 2022/23 gross expenditure on provision of services. It will be reassessed throughout the audit process. When setting the materiality threshold, we took into account the main activities of the Council and also considered its overall risk profile and public interest in comparison to other councils. We have provided supplemental information about audit materiality in Appendix F.



The outcome of consultation on the planned measures to address local audit delays may impact our assessment of materiality for the 2023/24 audit. We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

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

## Key definitions

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

**Specific materiality** – We will consider the qualitative materiality for officers' remuneration, related party transactions, members' allowances and exit packages disclosures in the financial statements which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

Officer's remuneration and members allowances - Disclosure is numerically and politically sensitive. Therefore, the general materiality level is not felt to be appropriate.

Exit Packages- Pensions, early retirement departure costs and Redundancy; these provisions are also numerically and politically sensitive.

Related Parties - Disclosure is numerically and politically sensitive. **Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £521k which represents 75% of planning materiality.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the income statement and balance sheet that have an effect on income or that relate to other comprehensive income.

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



# 05 Scope of our audit



# Audit process and strategy

## Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

### 1. Financial statement audit

Our opinion on the financial statements:

- ▶ whether the financial statements give a true and fair view of the financial position of the Group and its expenditure and income for the period in question; and
- ▶ whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

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

Other procedures required by the Code:

- ▶ Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the National Audit Office.

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

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

# Audit process and strategy

## Objective and Scope of our Audit scoping (cont'd)

### ***Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays***

The changes proposed by the consultations are likely to have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit Committee as the audit progresses and our assessment on the required scope and nature of procedures we will undertake becomes clearer. As examples:

- ▶ Where prior year audit opinions are modified work will be required to gain assurance, where possible, on opening balances over the period of the recovery phase (phase 2). Where we are unable to gain assurance over opening balances, we anticipate that this may lead to limitation of scope of our audit over those balances.
- ▶ Where prior year audit opinions are modified, and particularly where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase.
- ▶ Changes to the Code of Audit Practice on Local Authority Accounting will potentially impact on our assessment of audit risk generally, risks associated with significant accounting estimates, such as the valuation of operational property, plant and equipment and the related need to rely on management's and auditor's specialists.

# Audit process and strategy

## Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.
- ▶ Reliance on the work of other auditors where appropriate;
- ▶ Reliance on the work of experts in relation to areas, such as pensions and property valuations.

Our initial assessment of the key processes across the Council has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the financial statements are not materially misstated.

### *Analytics*

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

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

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

### *Internal audit*

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



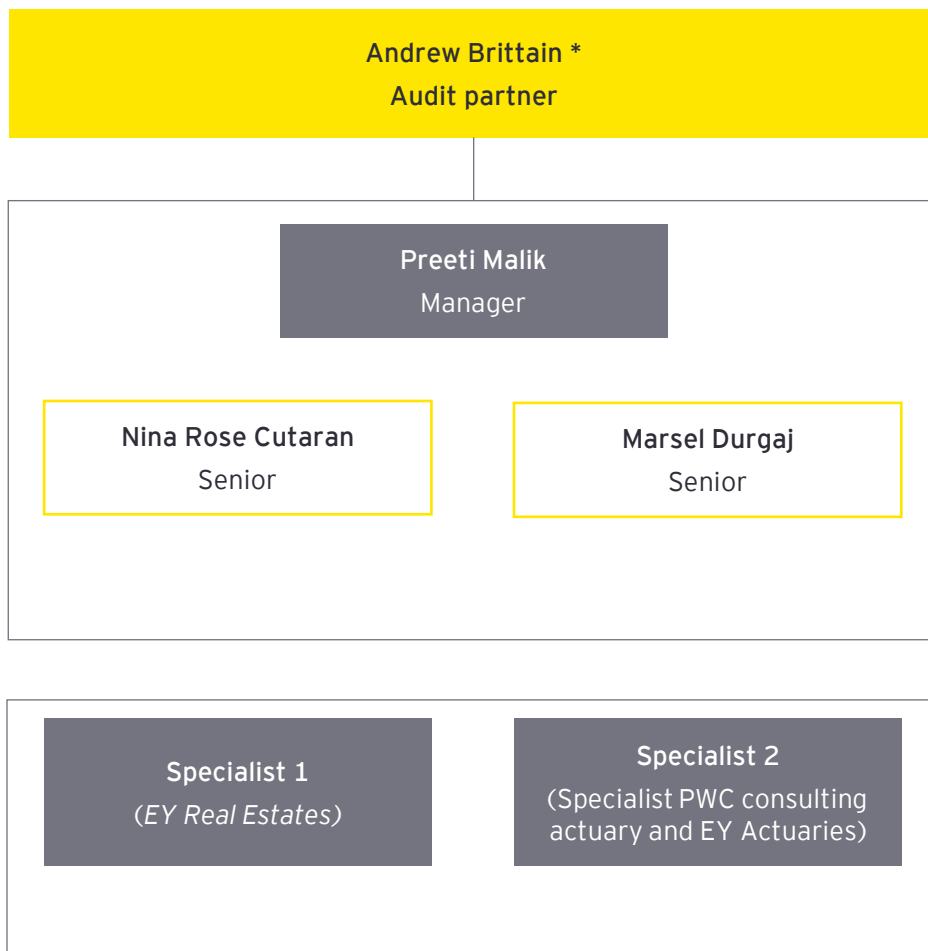


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# 06 Audit team



# Audit team



\* Key Audit Partner

# Use of specialists

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

Area	Specialists
Valuation of Land and Buildings and Investment properties	EY Valuations team
Pensions disclosure	EY Actuaries

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

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

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



# 07

## Audit timeline

# Timetable of communication and deliverables

## Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

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







# 08

# Independence

# Introduction

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

## Required communications

### Planning stage

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

Information about the general policies and process within EY to maintain objectivity and independence

The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).

- ▶ All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.

### Final stage

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

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

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

# Relationships, services and related threats and safeguards

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

## Overall Assessment

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

## Self interest threats

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

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

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

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

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

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



# Relationships, services and related threats and safeguards

## Self review threats

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

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

## Management threats

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

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

## Other threats

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

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



# Other communications

## EY Transparency Report 2023

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2023 and can be found here: [EY UK 2023 Transparency Report](#).





# 09 Appendices



# Appendix A – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

## **Preparation of the statement of accounts**

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.

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assign responsibilities clearly to staff with the appropriate expertise and experience;

provide necessary resources to enable delivery of the plan;

maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;

- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

# Appendix B – Fees

PSAA OPTED-IN BODIES: The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Levelling Up, Housing and Communities.

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

A breakdown of our fees is shown in the table to the right.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

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

	Current Year	Scale fee	Prior Year
	£	£	£
Total Fee - Code Work	£153,032 Note 2	£153,032	Note 1
<b>Total audit</b>	<b>£153,032</b>	<b>£153,032</b>	<b>0</b>
Other non-audit services not covered above (Housing Benefits Assurance Process)	TBC	N/A	TBC
<b>Total other non-audit services</b>	<b>TBC</b>	<b>N/A</b>	<b>TBC</b>
<b>Total fees</b>	<b>TBC</b>	<b>£153,032</b>	<b>TBC</b>

All fees exclude VAT

(1) As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DLUHC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2022/23 audit.

(2) The revision to ISA (UK) 315 will impact on our scope and approach, and require us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements. We expect to charge addition fee for this. The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:

- ▶ Consideration of correspondence from the public and formal objections.
- ▶ New accounting standards, for example full adoption or additional disclosures in respect of IFRS 16.
- ▶ Non-compliance with law and regulation with an impact on the financial statements.
- ▶ VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
- ▶ The need to exercise auditor statutory powers.
- ▶ Prior period adjustments.
- ▶ Modified financial statement opinions

# Appendix C – Accounting and regulatory update

## Future accounting developments

The following table provides a high level summary of the accounting development that has the most significant impact on the Council:

Name	Summary of key measures	Impact on 2023/24
IFRS 16 Leases	<ul style="list-style-type: none"><li>▶ CIPFA have confirmed there will be no further delay of the introduction of the leases standard IFRS 16.</li><li>▶ Assets being used by the authority under operating leases are likely to be capitalised along with an associated lease liability.</li><li>▶ Lease liabilities and right of use assets will be subject to more frequent remeasurement.</li><li>▶ The standard must be adopted by 1 April 2024 at the latest.</li></ul>	<ul style="list-style-type: none"><li>▶ The 2023/24 Statement of Accounts must disclose the impact the initial application of IFRS 16 is expected to have on the authority's financial statements.</li><li>▶ The authority should make key IFRS 16 policy decisions in accordance with the Code before 1 April 2024.</li><li>▶ Officers must implement robust systems to ensure all relevant data points, which could prompt a remeasurement or modification of the accounting entries, are captured in a timely manner.</li></ul>



# Appendix C – Accounting and regulatory update

## Regulatory update

The following table provides a high level summary of the regularity update that has the most significant impact on the Council:

Name	Summary of key measures	Impact on 2023/24
ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement	<p>ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:</p> <ul style="list-style-type: none"> <li>▶ Risk Assessment</li> <li>▶ Understanding the entity's internal control</li> <li>▶ Significant risk</li> <li>▶ Approach to addressing significant risk (in combination with ISA 330)</li> </ul> <p>The International Auditing &amp; Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:</p> <ul style="list-style-type: none"> <li>▶ Drive consistent and effective identification and assessment of risks of material misstatement</li> <li>▶ Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')</li> <li>▶ Modernise ISA 315 to meet evolving business needs, including:                             <ul style="list-style-type: none"> <li>▶ how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and</li> <li>▶ how auditors understand the entity's use of information technology relevant to financial reporting.</li> </ul> </li> <li>▶ Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.</li> </ul>	<p>We will need to obtain an understanding of the IT processes related to the IT applications of the Council.</p> <p>We will perform procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy.</p> <p>When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls where we do not gain assurance substantively, we performed additional procedures.</p> <p>We also review the following processes for all relevant IT applications:</p> <ul style="list-style-type: none"> <li>▶ Manage vendor supplied changes</li> <li>▶ Manage security settings</li> <li>▶ Manage user access</li> <li>▶ Manage entity-programmed changes</li> <li>▶ Job scheduling and managing IT process</li> </ul>

# Appendix D – The Spring Report

## A combined perspective on enhancing audit quality

The Spring Report ('The Report') was released by the Audit Committee Chairs' Independent Forum (ACCIF) on 2 June 2023 and is the first of its kind. The Report is the outcome from a series of discussions held with a group of experienced audit committee chairs, auditors from the top 6 firms, and executives from the Financial Reporting Council. The Report details the 9 key learnings that the group agreed on, proposing evolution not revolution, and is focused on getting the basics right first time leading to enhanced audit quality. The report considers key learnings covering the planning, execution, completion and reporting phases of the audit. The full list of key learnings can be found in the [report](https://accif.co.uk/report) (accif.co.uk).

# Appendix E – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

## Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▶ The planned scope and timing of the audit</li> <li>▶ Any limitations on the planned work to be undertaken</li> <li>▶ The planned use of internal audit</li> <li>▶ The significant risks identified</li> </ul> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit planning report- 26 March 2024
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report- 01 October 2024



# Appendix E – Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report- 01 October 2024
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report- 01 October 2024
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility</li> </ul>	Audit results report- 01 October 2024

# Appendix E – Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report- 01 October 2024
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> <li>▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:                             <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> </li> </ul> <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Planning Report -26 March 2024 and Audit Results Report- 01 October 2024

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# Appendix E – Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report- 01 October 2024
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	Audit results report- 01 October 2024
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Management letter/audit results report- 01 October 2024
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report- 01 October 2024
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report- 01 October 2024
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report- 01 October 2024
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report- 01 October 2024



# Appendix F – Additional audit information

## Regulatory update

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

Our responsibilities in relation to the financial statement audit are set out in . We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

## Other required procedures during the course of the audit

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

### Our responsibilities required by auditing standards

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

# Appendix F – Additional audit information (cont'd)

## Other required procedures during the course of the audit

### Procedures required by the Audit Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.
- ▶ Examining and reporting on the consistency of consolidation schedules or returns with the Group's audited financial statements for the relevant reporting period

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

## Purpose and evaluation of materiality

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

Materiality determines:

- ▶ The level of work performed on individual account balances and financial statement disclosures

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

# Appendix G - Non-Compliance with Laws and Regulations (NOCLAR)

## Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

### Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

### Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics](#) (IESBA Code) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

## Examples of Non-Compliance with Laws and Regulations (NOCLAR)

### Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

### Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations



# Appendix G - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

## What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



### Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

### Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

### Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

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None

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## AUDIT COMMITTEE

**DATE OF MEETING:** 26 March 2024

**TITLE OF REPORT:** INTERNAL AUDIT PROGRESS REPORT – FEBRUARY 2024

**Report of:** Executive Director of Corporate Services 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 (February 2024) 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 February 2024.

## 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 – February 2024 is noted.

**Contact Details: Neil Pitman, Head of Southern Internal Audit Partnership**

**Appendices**

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
		1	2	3	4	5	6	7
A	Internal Audit Progress Report – February 2024							

**Background papers: None**



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**Southern Internal  
Audit Partnership**

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**HART DISTRICT COUNCIL  
INTERNAL AUDIT PROGRESS REPORT – FEBRUARY 2024**

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:

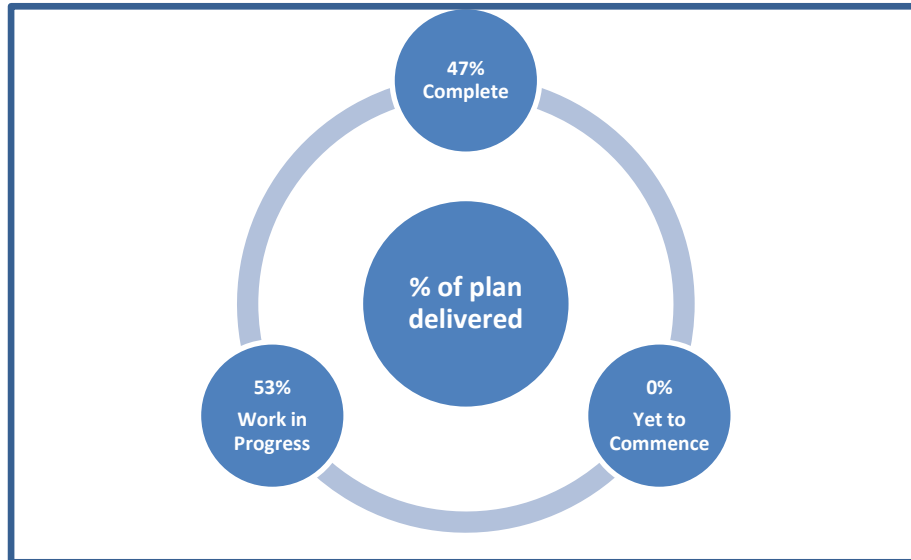
- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

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	0	1	12		2	
HR – Workforce Strategy	Nov 23	Corporate	Limited	7	0	3	2		2	
Legal Services	Feb 24	Corporate	Limited	9	0	8	1			
Cyber – User Training & Awareness	Feb 24	Corporate	Reasonable	4	0	4	0			
<b>Total</b>								-	4	-

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**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 two limited assurance opinion reviews issued since our last progress report.

Human Resources - Workforce Strategy		
Audit Sponsor	Assurance opinion	Management Actions
Graeme Clark, Executive Director of Corporate Services and Section 151 Officer		<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="background-color: #28a745; color: white; padding: 5px; text-align: center;">Low 1</div> <div style="background-color: #ffc107; color: black; padding: 5px; text-align: center;">Medium 6</div> <div style="background-color: #dc3545; color: white; padding: 5px; text-align: center;">High 0</div> </div>

**Summary of key observations:**

Strategic workforce planning is the process of analysing, forecasting, and planning workforce supply and demand, assessing gaps, and determining interventions. The purpose of the audit was to test whether a Workforce Strategy/Plan was in place and whether sufficient actions were evident to manage existing staffing resource risks. Testing was also carried out on the Council’s identification of current staffing needs and forecasting.

Positively, the Council maintains a comprehensive Recruitment and Selection Policy. Additionally staffing statistics are discussed at the Council’s Staffing Committee, with an experienced member of HR present, as well as the Chief Executive


However, the Council does not currently have a Strategic Workforce Plan in place. This is being reviewed currently, and the Council are looking to introduce a People and Organisational Development Strategy which covers analysis of the Council's current workforce and future workforce plans.

Whilst the Council was found to have a People Strategy in place covering the Council's values, along with a work programme for their implementation, the strategy did not cover workforce planning. Additionally, the document was created in 2015 with no evidence of it having been subsequently reviewed.

No evidence could be found of succession planning taking place other than in response to an event that prompted it.

Resourcing is a recognised risk by the Council and at the time of the audit featured as part of the Corporate Risk Register, however, there was a lack of clarity and concerns on the effectiveness of the existing controls and further mitigations documented to manage this risk.

One of the existing controls detailed in the risk register was found not to be in place, and none of the further mitigations had a defined timeframe for implementation set out in the Corporate Risk Register.

Legal Services		
Audit Sponsor	Assurance opinion	Management Actions
Graeme Clark, Executive Director of Corporate Services and Section 151 Officer	 Limited	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="background-color: #28a745; color: white; padding: 5px; text-align: center;">Low 0</div> <div style="background-color: #ffc107; color: black; padding: 5px; text-align: center;">Medium 3</div> <div style="background-color: #dc3545; color: white; padding: 5px; text-align: center;">High 6</div> </div>

**Summary of key observations:**

Hart District Council (HDC) formed a Shared Legal Service (SLS) in 2007 with Basingstoke and Deane Borough Council (BDBC) with the aim of improving their respective services and achieving more efficient and effective working arrangements. In November 2012 HDC agreed to continue to delegate the legal service function to BDBC for a further 10 years which is supported by a Deed signed by both councils on 22nd May 2017. The scope of this review was to review the effectiveness of governance arrangements in place for the delivery of the delegated function of legal services by BDBC and assess whether the service was being delivered according to the agreed Deed.

There was found to be a Shared Legal Services Manager (SLSM) in place with the role of day-to-day management of Shared Legal Services Team (SLST).

Positively, there were found to be ongoing monthly Work in Progress (WIP) meetings focusing on providing updates on all opened legal matters for each service (Community, Corporate and Place). Although minutes from the meetings are not taken, notes of actions and the next steps are recorded on the WIP report which is circulated to the relevant Executive Service Directors.

Additionally testing confirmed payment arrangements were timely and accurate.

However, it was observed that the Deed for the Provision of Shared Legal Services expired in 2022 and had not been reviewed or renewed.

Although we noted that the role of contract lead/manager now sits with the Deputy Monitoring Officer, after the Monitoring Officer left the Council, this has not been officially assigned, documented, or communicated, therefore certain roles we would expect from a contract lead is not being performed.

Some specialist external legal services are procured externally of the Agreement without prior notice to the Shared Legal Service Manager which is contrary to clause 14.5 in the Deed for the provision of legal service.

Whilst it was positive to note that quarterly Partnership Board meetings were taking place between the two Councils and discussions covered all shared services including the Shared Legal Services, there are no formal agenda, minutes, or action tracker for these meetings.



## 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>2023/24</b>								
Information Governance	Corporate	✓	✓	✓	Oct 23	Oct 23	Reasonable	
Risk Management	Corporate	✓	✓	✓				
Programme & Project Management	Corporate	✓	✓	✓	Dec 23	Dec 23	Substantial	
HR – Workforce Strategy	Corporate	✓	✓	✓	Sep 23	Nov 23	Limited	
National Fraud Initiative - Agreement	Corporate	n/a	n/a	n/a	n/a	n/a	n/a	
Cyber – Staff Training & Awareness	Corporate	✓	✓	✓	Jan 24	Feb 24	Reasonable	
Vulnerability Management	Corporate	✓	✓	✓	Dec 23	Dec 23	Reasonable	
Accounts Receivable & Debt Management	Corporate	✓	✓	✓				
Housing Benefits	Corporate	✓	✓					
Climate Change	Corporate	✓	✓	✓	Dec 23			
Safeguarding	Community	✓	✓	✓	Jul 23	Aug 23	Reasonable	
Licencing	Place	✓	✓	✓	Feb 24			
S106 Developer Contributions	Place	✓						
Waste & Recycling	Corporate	✓						
Legal Services	Corporate	✓	✓	✓	Jan 24	Feb 24	Limited	
Planning Performance - Follow Up	Place	✓	✓	✓				
IT Controls – Follow Up	Corporate	✓						

**8. Adjustments to the Internal Audit Plan**

Plan Variations 2023/24	
Additions to the plan	Explanation
Planning Performance - Follow Up	Legacy Reviews
IT Follow Up	Legacy Reviews
Deletions from the plan	Explanation
Savings Realisations	Lower risk as all savings proposals for 23/24 have been met
Decision Making	Ongoing revision to the Council's Constitution which is to be put to Annual Council in mid-May 2024 for approval. Therefore, the timing of this review would be better placed following any Constitutional changes
Payment Card Industry Standards	Lower risk – days reassigned to higher priority areas

**Overdue ‘Low & Medium Priority’ Management Actions (February 2024)**

Audit Review	Report Date	Opinion	Priority		Due Date	Revised Due Date
			Low	Medium		
Safeguarding	Aug 23	Reasonable		1	31/01/24	31/03/24
				1	31/01/24	31/03/24
HR Workforce Strategy	Nov 23	Limited		1	31/12/23	29/02/24
				1	31/01/24	30/04/24
<b>Total</b>			-	4		

## AUDIT COMMITTEE

**DATE OF MEETING:** 26 MARCH 2024

**TITLE OF REPORT:** INTERNAL AUDIT CHARTER 2024/25

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

**Cabinet Portfolio:** Finance

**Key Decision** No

### 1 PURPOSE OF REPORT

1.1 The purpose of this paper is to present the Internal Audit Charter for 2024-25 in accordance with the requirements of the Public Sector Internal Audit Standards (Appendix A).

### 2 OFFICER RECOMMENDATION

2.1 To approve the Internal Audit Charter 2024-25

### 3 BACKGROUND

3.1 The Internal Audit Charter is a formal document that defines the internal audit activity's purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Public Sector Internal Audit Standards require the charter to be reviewed and approved annually.

3.2 The Accounts and Audit (England) Regulations 2015 state:

*'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'*

3.3 The Public Sector Internal Audit Standards (attribute 1000) requires that all internal audit activities maintain an 'internal audit charter'. The internal audit charter establishes internal audit's position within the organisation including:

- Recognising the mandatory nature of the Public Sector Internal Audit Standards
- Defining the scope of internal audit responsibilities
- Establishing the organisational independence of internal audit
- Establishing accountability and reporting lines (functional and administrative)
- Arrangements that exist with regard anti-fraud and anti-corruption
- Establishing internal audit rights of access



- Defining the terms ‘board’ and ‘senior management’ for the purposes of internal audit.

3.4 In accordance with the Standards, the internal audit charter should be reviewed annually (minimum) and approved by senior management and this Committee.

3.5 Appendix 1 provides a draft copy of the Internal Audit Charter 2024-25 for review and comment.

## 6 CORPORATE GOVERNANCE CONSIDERATIONS

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

Adopting the internal audit charter 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 internal audit charter is reviewed annually and approved by ‘senior management’ and the ‘Board’. For the purposes of Hart District Council within the internal audit charter the ‘Board’ is defined as 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.

## 7 EQUALITIES

7.1 There are no equalities issues arising from this report.

## 8 CLIMATE CHANGE IMPLICATIONS

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

## 9 ACTION

9.1 The Internal Audit Charter 2024-25 is approved.

**Contact Details: Neil Pitman, Head of Southern Internal Audit Partnership**

### Appendices

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
		1	2	3	4	5	6	7
A	Internal Audit Charter 2024-25							

**Background papers:** None



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# **Southern Internal Audit Partnership**

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HART DISTRICT COUNCIL

Internal Audit Charter 2024/25

Prepared By: Neil Pitman, Head of Southern Internal Audit Partnership  
February 2024

## Internal Audit Charter – 2024/25

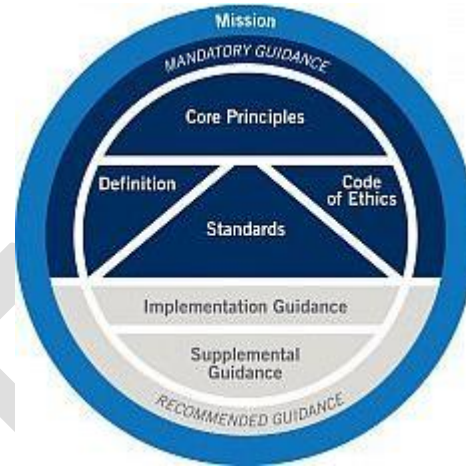
### Introduction

The Public Sector Internal Audit Standards (the Standards) provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes:

- the mission;
- core principles;
- definition of internal audit; and
- Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'.



The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority, and responsibility.

### Mission and Core Principles

The IPPF 'Mission' aims *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*

The 'Core Principles' underpin delivery of the IPPF mission:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.



## **Authority**

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

*‘undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.*

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards (updated 2017).

## **Purpose**

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 organisation’s objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

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’.*

## **Responsibility**

The responsibility for maintaining an adequate and effective system of internal audit within Hart District Council lies with the Executive Director of Corporate Services (S151 Officer).

For the Council, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Head of Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the ‘Mission’, ‘Core Principles’, ‘Definition of Internal Auditing’, the ‘Code of Ethics’ and ‘the Standards’.

## Definitions

For the purposes of this charter the following definitions shall apply:

*The Board* – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Audit Committee.

*Senior Management* – those responsible for the leadership and direction of the Council. At the Council this shall mean the Senior Leadership Team.

## Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the Executive Director of Corporate Services (S151 Officer) who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Monitoring Officer responsibility, legality and standards.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committee).

## Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Executive Director of Corporate Services (S151 Officer) will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

*'Senior Management'* and *'the Board'* will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to *'senior management'* and *'the Board'*, for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to *'senior management'* and *'the Board'*.

If the Chief Internal Auditor, *'the Board'* or *'Senior Management'* consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Executive Director of Corporate Services (S151 Officer) accordingly.

### **Independence and objectivity**

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to *'senior management'* and *'the Board'*;
- reports functionally to *'the Board'*;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team; and
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to *'Senior Management'* and *'the Board'*. The nature of the disclosure will depend upon the impairment.

## **Due professional care**

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity, but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the *'Mission', Core Principles', Definition of Internal Auditing'*, the *'Code of Ethics'* and the *'Standards'* and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported in accordance with the Council's Anti-fraud and Corruption Policy.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

## **Access to relevant personnel and records**

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

## **Scope of Internal Audit activities**

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.



The Council assume a Key Stakeholder role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the SIAP. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls.

Managing the risk of fraud is the responsibility of line management and strategic responsibility for reactive and proactive fraud work sits with the Executive Director of Corporate Services (\$151 Officer) who would ensure any suspected or detected fraud or corruption was investigated.

The Council participates in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other local authorities and external agencies to detect potential fraudulent activity.

The Executive Director of Corporate Services (\$151 Officer) will commission resource to undertake any investigations required and notify SIAP of any suspected or detected fraud to inform their opinion.

SIAP will review the governance arrangements to prevent, detect and investigate fraud and irregularities on a cyclical basis.

## **Reporting**

### ***Chief Internal Auditor's Annual Report and Opinion***

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

## Senior Management

As those responsible for the leadership and direction of the Council. It is imperative that the Senior Management Team are engaged in:

- approving the internal audit charter (minimum annually);
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

## The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement.

## Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to 'Senior Management' and 'the Board' for approval.

## Southern Internal Audit Partnership – Client Portfolio

<b>Strategic Partners:</b>	Hampshire County Council
<b>Key Stakeholder Partners:</b>	West Sussex County Council Havant Borough Council East Hampshire District Council Winchester City Council New Forest District Council Mole Valley District Council Epsom & Ewell Borough Council Reigate & Banstead Borough Council Tandridge District Council Crawley Borough Council Arun District Council Guildford Borough Council Hart District Council
<b>Blue light Key Stakeholder Partners:</b>	Hampshire & IoW Fire & Rescue Authority West Sussex Fire Service Office of the Hampshire & IoW Police & Crime Commissioner / Hampshire & IoW Constabulary Office of the Sussex Police & Crime Commissioner / Sussex Police Force Office of the Surrey Police & Crime Commissioner / Surrey Police Force
<b>External clients:</b>	Waverley Borough Council Hampshire Pension Fund West Sussex Pension Fund New Forest National Park Authority Ringwood Town Council Lymington & Pennington Town Council Langstone Harbour Authority Chichester Harbour Authority Isle of Wight College

### Assurance Services

- **Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- **Developing systems audit:** in which:
  - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
  - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- **Fraud and irregularity investigations:** Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the Council's Anti Fraud and Anti Corruption Strategy.
- **Advisory / Consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.



## AUDIT COMMITTEE

**DATE OF MEETING:** 26 MARCH 2024

**TITLE OF REPORT:** INTERNAL AUDIT PLAN 2024/25

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

**Cabinet Portfolio:** Finance

**Key Decision** No

### 1 PURPOSE OF REPORT

1.1 The purpose of this paper is to present the Internal Audit Plan for 2024-25 in accordance with the requirements of the Public Sector Internal Audit Standards (Appendix A).

### 2 OFFICER RECOMMENDATION

2.1 To approve the Internal Audit Plan 2024-25

### 3 BACKGROUND

3.1 The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities, systems or processes under review that:

- The framework of internal control, risk management and governance is appropriate and operating effectively; and
- Risks to the achievement of the Council's objectives are identified, assessed, and managed to a defined acceptable level.

3.2 The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resource to provide a clear statement of assurance on risk management, internal control, and governance arrangements.

3.3 Internal audit focus should remain proportionate and appropriately aligned to key areas of organisational risk.

3.4 All auditable areas of review remain within the audit universe and are subject to ongoing assessment. The audit plan will remain fluid to ensure that internal audit is able to react to new and emerging risks along with the changing needs of the Council

3.5 Other reviews, based on criteria other than risk, may also be built into the work plan. These may include 'mandatory' audits or reviews requested or commissioned by management. Any commissioned review must be able to

clearly demonstrate a contribution to the audit opinion on risk management, control, and governance.

## **6 CORPORATE GOVERNANCE CONSIDERATIONS**

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

Adopting 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'.

### **Financial and Resource Implications**

There are no financial implications arising from this report.

### **Risk Management**

There is a risk that if the internal audit plan is not effectively compiled and delivered than it could inhibit the production of the annual report and opinion (in accordance with the Accounts and Audit (England) Regulations 2015) and its subsequent contribution to the Annual Governance Statement.

## **7 EQUALITIES**

7.1 There are no equalities issues arising from this report.

## **8 CLIMATE CHANGE IMPLICATIONS**

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

## **9 ACTION**

9.1 The Internal Audit Plan 2024-25 is approved.

Contact Details: Neil Pitman, Head of Southern Internal Audit Partnership

Appendices

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
		1	2	3	4	5	6	7
A	Internal Audit Plan 2024-25							

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 PLAN 2024-25**

Prepared by: Neil Pitman, Head of Southern Internal Audit Partnership

February 2024



## Introduction

The role of internal audit is that of an:

*'Independent, objective assurance and consulting activity designed to add value and improve an organisation's 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 organisation's objectives.

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of Internal Audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant stakeholders to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Southern Internal Audit Partnership's continued contact and liaison with those responsible for the governance of the Council.

## Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The strategic lead will be Neil Pitman, Head of Southern Internal Audit Partnership, supported by Jade Lakeland, Audit Manager.

## Conformance with Internal Auditing Standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2020 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

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Considering all sources of evidence the external assessment team 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.'*

## Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team which are required to be disclosed under internal auditing standards.

## Hart District Council – Corporate Plan 2023 – 2027

Hart District Council have agreed their Corporate Plan for 2023 to 2027 which sets out how the Council intends to play its role in improving, sustaining, and promoting the social, economic, and environmental wellbeing of the communities in Hart District over the next five years.

This is based on the following themes:

**Planet - Sustainability and Climate Emergency: A carbon neutral and climate-resilient council by 2035**

**People – fair treatment for all, help for those in need, and a sustainable economy that makes Hart a great place to live and work**

**Place - delivering warmer, better homes in sustainable locations that people can afford to live in.**

**Building a Resilient Council - Your services: getting it right first time and delivering what matters to you**

These themes are underpinned by a range of aims and goals to measure the effective outcomes.

### Council Risk

The corporate risks assessed by the Council are a key focus of our planning for the year to ensure it meets the organisation's assurance needs and contributes to the achievement of their objectives.

Service	Description	Risk Score
Community	Loss of MHCLG Homelessness Grant. HPG is secure till 2025 but unknown after that	9
Community	Changes to planning law resulting in loss of Sec106 sites and increased workload for staff	6
Community	Failure to recover rent bond money	4
Corporate	Waste and recycling facing significant change in next 3 years due to new legislation, new disposal arrangements with HCC and Serco contract end date	12
Corporate	Risk of a Cyber-attack on the Council's systems and data	12
Corporate	Secure future provision of legal services that delivers the Council's needs and provide good value for money	9
Corporate	Medium Term Financial Strategy and Budget – unable to deliver sustainable balanced budget over the medium term	9
Corporate	Delivery of climate change action plan objectives and achievement of zero carbon aims	9
Place	Recruitment & retention of key staff	9
Place	Workload required due to outside influences. For example, neighbourhood plans, Parish-led Conservation Area Appraisals, Duty to Corporate	8
Place	Changes to the Planning System (Planning Policy & Development Management)	6

\*extract from Corporate Risk Register (half year review) presented to Overview & Scrutiny Committee (September 2023)

We will monitor the corporate risk register closely over the course of the year to ensure our plan remains agile to the rapidly changing landscape.

## Developing the Internal Audit Plan 2024/25

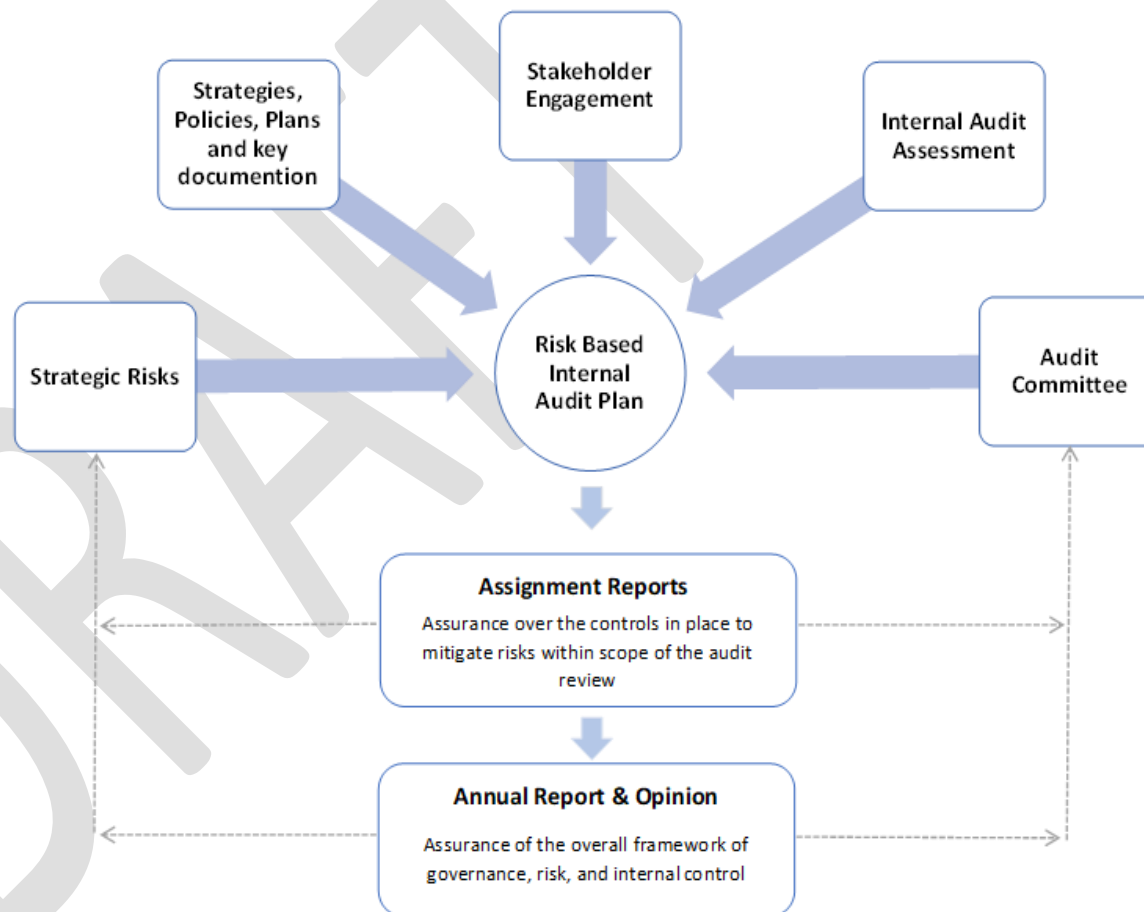
In accordance with the Public Sector Internal Audit Standards there is a requirement that internal audit establish a risk-based audit plan to determine the resourcing of the internal audit service, consistent with the organisation’s goals.

Based on conversations with key stakeholders, review of risk registers, key corporate documents and our understanding of the organisation, the Southern Internal Audit Partnership have developed an annual audit plan for the coming year.

Audit planning is a perpetual process throughout the course of the year to ensure we are able to react to new and emerging risks and the changing needs of the organisation.

The Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers to ensure that duplication is minimised, and a suitable breadth of assurance is obtained.





## Internal Audit Plan 2024-25

Audit Review	Audit Sponsor (Executive Director)	Indicative Scope	Corporate / Directorate Risks	Proposed Timing
<b>Governance</b>				
Corporate Health & Safety	Place	To provide assurance over governance, policy, process and accountability. Also to review existing arrangements with Reading BC.	✓	Q1
Procurement	Corporate	To review compliance with Contract Procedure Rules and adoption of the New Procurement Act		Q4
Use of Agency Staff	Corporate	To provide assurance over the governance and effective use of agency staff across the organisation and the cost of agency staff compared to establishment posts.	✓	Q1
Savings Realisation	Corporate	Assurance over the governance process in place for the development, monitoring, reporting and delivery of identified savings to meet known future budget pressures.	✓	Q4
DPR	Corporate	Assurance on 'reporting data breaches in contracted and shared services'	✓	Q1
National Fraud Initiative	Corporate	To fulfil the key aspects of the Key Contact Role as per agreed arrangements.	✓	Q1-Q4
<b>IT</b>				
IT Contingency	Corporate	Pending discussions with the Head of IT	✓	Q2-Q3
<b>Core Financial</b>				
Treasury Management	Corporate	Assurance on the effectiveness of controls to support the Treasury Management process and ongoing compliance with the Prudential Indicators		Q2
Payroll	Corporate	Assurance of control and processes in place for the effective and timely administration of the payroll process		Q2
Non-Domestic Rates	Corporate	Assurance of the controls and processes in place for the effective administration of NNDR		Q3

Audit Review	Audit Sponsor (Executive Director)	Indicative Scope	Corporate / Directorate Risks	Proposed Timing
<b>Planet – sustainability and climate emergency: a carbon neutral and climate resilient council by 2035</b>				
Tree Safety	Community	Assurance on the effective governance and maintenance of tree inspections to support the discharge of the Council's responsibilities.		Q2
<b>People – fair treatment for all, help for those in need and a sustainable economy that makes Hart a great place to live and work</b>				
Building Repairs & Maintenance	Place / Corporate	To provide assurance over compliance with statutory checks e.g. gas, fire, legionella, asbestos, lifts etc.		Q2
<b>Place – delivering warmer, better homes in sustainable locations that people can afford to live in</b>				
Building Control	Place	Review of agreement with Rushmoor BC for service provision and assurance that the Council are receiving a service in line with agreed specification	✓	Q2
<b>Building a resilient council – your services: getting it right first time and delivering what matters to you</b>				
Business Continuity Planning	Place	To provide assurance over the completeness and effectiveness of business continuity plans across the organisation.	✓	Q3
Financial System Implementation - Contingency	Corporate	Retain contingency for critical friend role in the system implementation of the new financial Management System	✓	Q1-Q4
Street Cleansing & Grounds Maintenance	Community	Review of effectiveness of governance arrangements and the management of the contract for service provision ensuring the Council are receiving a service in line with agreed specification	✓	Q4
<b>Other</b>				
Management				Q1 – Q4
<b>Total Days</b>				<b>220</b>

## AUDIT COMMITTEE WORK PROGRAMME

MARCH 2024

Issue and Description of Topic	Current Position Objective	Original Due Date	Revised Date	Resources Required	Contact	*This item may contain Exempt Information
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.	Mar 2024		SIAP staff resource	SIAP	
Internal Audit Charter 2024/25	To approve the Internal Audit Charter 2024/25, it sets out the purpose, authority and reporting requirements and is approved annually by the Senior Leadership team and Audit Committee.	Mar 2024		SIAP staff resource	SIAP	
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.	Mar 2024		SIAP staff resource	SIAP	
Value for Money Report	To receive the Council's External Auditors report on the key findings of their value for money work for 2022/23.	Mar 2024		EY Staff resource	EY	
External Audit (EY) Planning Document 23/24	The purpose of this report is to provide the Audit Committee with the 2023-24 External Audit Planning Report.	Mar 2024		EY Staff resource	EY	

Government's proposals to address the local audit backlog in England	To inform Members of the proposals and discuss the impact on the Committee's work programme.	Mar 2024		HDC staff time	GC	
Statement of Accounts 2022/23	To approve the Statement of Accounts 2022/23.	July 2024		2022/23 Accounts have been published since 31 May 2023. This report is dependent on the completion of the external audit work	GC	
Final Annual Governance Statement 2022/23	To approve the Annual Governance Statement 2022/23	July 2024		Draft AGS approved by Audit Cttee July 2023. This report is dependent on the completion of the external audit work	GC	
Audit Committee end of year report 2023/24	An end-of-year report on the work and effectiveness of the Audit Committee for 2023/24	July 2024		HDC staff time	GC/SIAP	
Internal Audit Annual Report and Opinion	To note the Internal Audit Report and Opinion for 2023/24.	July 2024		SIAP staff resource	SIAP	
Internal Audit Progress Report quarter 1 2024/25	To review and note the report on the work undertaken by Internal Audit at each of their meetings.	July 2024		SIAP staff resource	SIAP	
Review Whistleblowing Policy	2-yearly review the Whistleblowing Policy and approve the update if necessary	July 2024		HDC staff time	GC	



<b>Local Code of Governance</b>	<b>2-yearly review the Local Code of Governance and approve the update if necessary</b>	<b>July 2024</b>		<b>HDC staff time</b>	<b>GC</b>	
<b>External Auditor's (EY) Annual Report 2022/23</b>	<b>The purpose of this report is to provide the Council's External Auditors Annual Report with the conclusions of the 2022/23 audit to those charged with governance.</b>	<b>July 2024</b>		<b>EY Staff resource</b>	<b>EY</b>	
<b>External Audit Results Report 2023/24</b>	<b>To receive the Council's External Auditors report on the key findings of their audit of the 2023/24 Statement Accounts.</b>	<b>Oct 2024</b>		<b>EY Staff resource</b>	<b>EY</b>	
<b>Statement of Accounts and Annual Governance Statement 2023/24</b>	<b>To approve the Statement of Accounts, Annual Governance Statement and Letter of Representation for 2023/24.</b>	<b>Oct 2024</b>		<b>HDC staff time</b>	<b>GC</b>	
<b>Internal Audit Progress Report Quarter 2 2024/25</b>	<b>To review and note the report on the work undertaken by Internal Audit at each of their meetings.</b>	<b>Oct 2024</b>		<b>SIAP staff resource</b>	<b>SIAP</b>	
<b>Consultation on 2024/25 Scale of Audit Fees</b>	<b>To review the Consultation on 2023/24 Scale of Audit Fees.</b>	<b>Oct 2024</b>		<b>HDC staff time</b>	<b>GC</b>	