

Hart District Council

Audit Results Report

Year ended 31 March 2020

October 2020



Building a better
working world

20 October 2020



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our audit progress and findings in relation to the audit of Hart District Council for 2019/20.

We have substantially completed our audit of Hart District Council for the year ended 31 March 2020. As set out in section 1, some issues have arisen as a result of covid-19 which we have taken account of in our audit. I have discussed the status of our audit with the Head of Corporate Resources (S151 Officer) up to the date of issuing this report.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3. We also have no matters to report to date on your arrangements to secure economy, efficiency and effectiveness in your use of resources. We will finalise our conclusions once we have completed all our outstanding work.

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

We would like to thank your staff for their help during the engagement. We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 27 October 2020 .

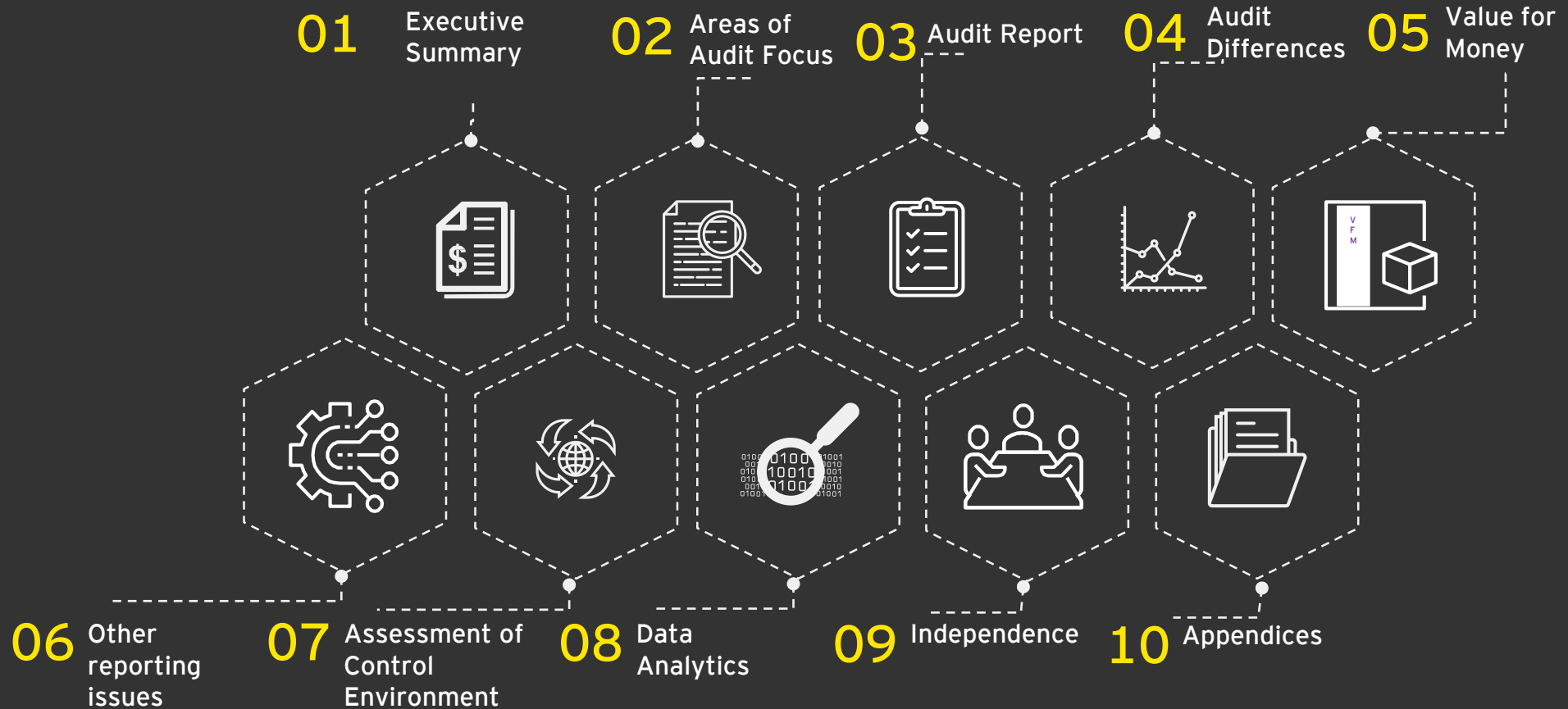
Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP
Encl

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

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

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

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



01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 4 March 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of land and buildings**- The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment and investment properties.
- ▶ **Disclosures on Going Concern** - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance. Additional consultation requirements concerning the impact on auditor reports because of Covid-19, mainly focused on Going Concern, have also been put in place by EY.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Local Authority.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £914k (*Audit Planning Report – £902k*).

- ▶ This results in an updated performance materiality, at 50% of overall materiality, of £457k (*Audit Planning Report - £451k*), and an updated threshold for reporting misstatements of £46k (*Audit Planning Report - £45k*).
- ▶ The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.



Executive Summary

Scope update (continued)

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform which will impact our audit fee. We will confirm the impact at the conclusion of the audit once all procedures are completed.

Status of the audit

We are in the process of completing our audit of Hart District Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our audit planning report.

We have set out in Appendix C the remaining areas of audit to be completed at the time of writing this report. Subject to satisfactory completion of those matters, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

If we identified any audit differences, we either ask for them to be corrected or a rationale given as to why they are not corrected, which is approved by the Audit Committee and included in the Letter of Representation. If applicable, we set out the aggregated impact of unadjusted audit differences and whether we agree with management's assessment that the impact is not material.

Unadjusted audit differences:

- Accruals overstated by an estimated £165k. We found two examples, totalling £2,748, in our sample of 18, where the invoice and services provided related to FY20/21. This error was estimated to be £165k when extrapolated across the total population.

Adjusted audit differences:

- We have identified one audit difference in the draft financial statements which management **has chosen** to adjust. The pension fund auditor has raised that, based on the Pension Fund accounts and actual rate of return, the Council's share of the pension fund assets is estimated to be understated by £727k.
- There were some minor disclosures which have been adjusted by management.

We have yet to complete our work so there may be other adjustments arising.

Executive Summary

Areas of audit focus

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

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

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

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

Control observations

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

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified two significant risks around our Value for Money Conclusion on the impact of the exit from the 5 C's contract and the Commercialisation and purchase of investment properties. We are satisfied with the arrangements in place in these areas.

Other reporting issues

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

We are required to perform procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The NOA are yet to issue those instructions, but as the authority is expected to be below the NAO threshold, this usually consists simply of a return to the NAO.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

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 and Ireland) 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.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur, in terms of the potential incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk.

What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Asked management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

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

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

Our testing of journal entries did not identify any errors nor highlight any fraud issues.



Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

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

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position.

A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme of £9.283 million in 19/20.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.
How the capital programme complies with proper capital strategy principles.

What did we do?

- Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override in relation to the incorrect capitalisation of revenue expenditure.

We have not identified any instances of inappropriate judgements being applied in expenditure that has been capitalised.

Areas of Audit Focus

Other areas of audit focus

In our audit planning report we identified other areas of the audit, not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

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

The value of Investment Property, at £6.350 million, and Property, Plant and Equipment (PPE), at £42.511 million, at the end of March 2020, represent significant balances in the Council's accounts.

There is a risk that the values in the Council's financial statements may be materially misstated as PPE is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgements on inputs and apply estimation techniques to calculate the year-end balances in the balance sheet. These judgments cover both assets that are revalued within the year and, the continuing material accuracy of those valued in prior periods. The impact of Covid-19 has meant that valuers are providing their valuations as at 31 March 2020 with material uncertainty clauses.

What did we do?

We:

- ▶ considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme for PPE.
- ▶ reviewed PPE assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuers; and
- ▶ confirmed that accounting entries have been correctly processed in the financial statements.

At the time of writing this work is in progress and we have yet to complete our final review.

Areas of Audit Focus

Other areas of audit focus

In our audit planning report we identified other areas of the audit, not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Pension Liability Valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this net liability is disclosed on the Council's balance sheet. At 31 March 2020 this came to £28.610 million.

The information disclosed is based on the IAS19 report issued to the Council by the actuary to the County Council.

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

What did we do?

We:

- ▶ Liaised with the auditors of Hampshire Pension Fund to obtain assurances over the information supplied to the actuary. The pension fund auditor has raised that, based on the Pension Fund accounts and actual rate of return, the Council's share of the pension fund assets is estimated to be understated by £727k.
- ▶ Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. There are no issues regarding the actuary's assumptions.

Areas of Audit Focus

Other areas of audit focus

In our audit planning report we identified other areas of the audit, not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Going Concern

The Council prepares its accounts on the assumption that it will continue as a going concern. The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake a detailed assessment to support its going concern assertion. We discussed with management the need for additional disclosures in the 2019/20 statements on going concern and in particular, and identified material uncertainties

From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for the 2019/20 statements, for example, we will need to see evidence of an assessment up to and including November 2021. This will need information relevant to the 2021/22 financial year.

We focus on management's assessment of the going concern on both the level of reserves available to the Council, and the availability of cash balances, in order to ensure they are both sufficient to enable the Council to continue its operations.

What did we do?

- ▶ We reviewed the Audit Committee's assessment of the appropriateness of the going concern assumption;
- ▶ We reviewed and challenged the level and form of disclosure of this assessment made in the financial statements, given the Covid-19 pandemic; and
- ▶ Reviewed the Council's cash flow forecasts and financial plans for the foreseeable future to ensure that these are sufficiently robust and supported by adequate evidence, and that the cash flow forecasts demonstrate that the Council has sufficient liquidity to continue its operations.
- ▶ We have yet to complete our review of the proposed going concern disclosures for inclusion in the financial statements, which needs to take into account information through to the date of signing the auditor report;
- ▶ We may draw the attention of the users to this disclosure, if we consider there are issues significantly important to their understanding of the going concern assumption. This would be through an emphasis of matter paragraph in our audit report. Our opinion is not qualified in respect of this matter.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of Hart District Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014.

The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Collection Fund, and
- The related notes 1 to 7 of the Authority's Financial Statements, notes 8 of the Collection Fund, and note 9.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hart District Council and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

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

Conclusions relating to going concern

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

- The Head of Corporate Resources (S151 Officer)s' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Corporate Resources (S151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Head of Corporate Resources (S151 Officer) is responsible for the other information.

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



Audit Report

Our opinion on the financial statements

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Hart District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

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

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

We have nothing to report in these respects

Responsibility of the Head of Corporate Resources (S151 Officer)

As explained more fully in the Statement of Responsibilities set out on page 16, the Head of Corporate Resources (S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Corporate Resources (S151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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



Audit Report

Our opinion on the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Hart District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Hart District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

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

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

Certificate

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

Use of our report

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

Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
Xx November 2020



04 Audit Differences





Audit Differences

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

Summary of audit differences

If we identified any audit differences, we either ask for them to be corrected or a rationale given as to why they are not corrected, which is approved by the Audit Committee and included in the Letter of Representation. If applicable, we set out the aggregated impact of unadjusted audit differences and whether we agree with management’s assessment that the impact is not material.

Unadjusted audit differences:

- Accruals overstated by an estimated £165k. We found two examples, totalling £2,748, in our sample of 18, where the invoice and services provided related to FY20/21. This error was estimated to be £165k when extrapolated across the total population.

Adjusted audit differences:

- We have identified one audit difference in the draft financial statements which management **has chosen** to adjust. The pension fund auditor has raised that, based on the Pension Fund accounts and actual rate of return, the Council’s share of the pension fund assets is estimated to be understated by £727k.

Disclosures:

- *Note 3.10.1 - Remuneration*; There are two errors in this note where exit packages have been disclosed in the wrong bandings
- *Note 5.12.6 - Collection Fund Adjustment Account*: The carried forward figures initially showed a surplus instead of a deficit
- *Restatements*: A number of notes had restated comparative figures for 18/19, however these were, all but one, presentational issues which did not need defining as restatements.
- There were also some other minor disclosures which have been adjusted by management.

We have yet to complete our work so there may be other adjustments arising.



05

Value for Money



Value for Money

Background

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

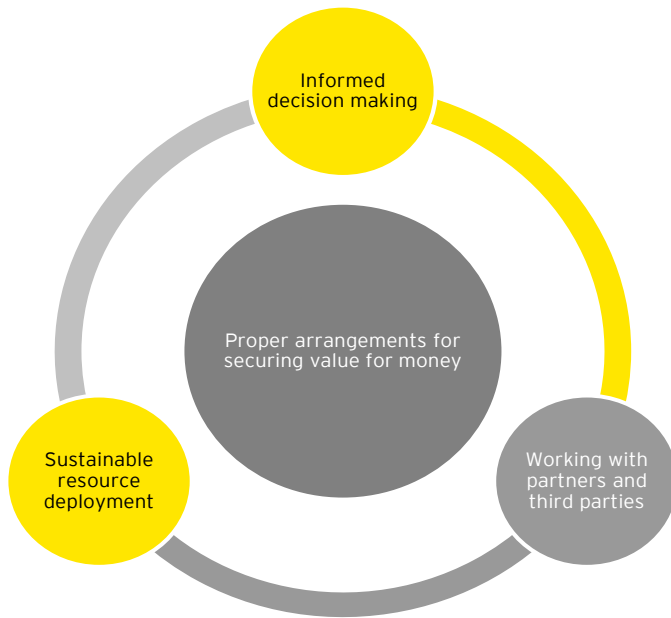
For 2019/20 this is based on the overall evaluation criterion:

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

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

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

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



Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusions

Our value for money risk assessment, at the planning stage of the audit, considered both the potential financial impact of issues facing the Council, and also the likelihood that the issues will be of interest to local taxpayers, the Government and other stakeholders. At the time of planning, we identified two significant risks relevant to our value for money conclusion, namely:

- the impact of exit from the 5 C's Contract; and
- commercialisation and the purchase of investment properties.

Our findings and conclusions are set out on the following pages.

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>The impact of the exit from the 5C's contract</p>		
<p>In October 2017, Hart District Council (the Council) entered into two contracts for the provision of corporate services, in partnership with Mendip District Council, South Oxfordshire District Council, Vale of the White Horse District Council and Havant Borough Council (known as the “Five Councils”). The services were originally split into two lots; data-based services (Lot 1) and property based services (Lot 2).</p> <p>These contracts were designed to generate savings of over £50 million for the Five Councils across their lifetime of nine years but the Councils have had to renegotiate Lot 1, in October 2018, and pull out of Lot 2, in January 2018, due to the issues with the way the contracts were constructed and the implications for the practical implementation of them.</p> <p>In October 2018, the Five Councils drafted the new Inter-Authority Agreement (IAA) which outlined the revised governance and cost sharing arrangements between them. However, this has not worked effectively as there are still performance issues with the contract, as discussed at the 28 October 2019 5 Councils Corporate Services Joint Committee.</p> <p>The 5 Councils are now exiting the contract for some services as at 31 March 2020. Given the short timescale for termination of the contract there is a risk that both the services and financial performance of the Council would be negatively impacted if new arrangements, from 1 April 2020, are difficult to implement or do not deliver the intended benefits in a sufficiently timely manner.</p>	<p>Deploy resources in a sustainable manner</p> <p>Informed Decision making</p>	<p>We will:</p> <ul style="list-style-type: none"> review the arrangements in place to monitor the exit of the 5 C’s contract for the relevant services. review the arrangements to plan and implement the revised delivery arrangements, including risk management processes.
<p>Findings</p>		
<p>In line with the governance arrangements in the IAA, service performance and contract change discussions continued to be reported to the, regular 6 weekly meetings of the 5 Council’s Strategic Management Board (SMB), Operational Management Board (OMB) and the Joint Tactical Board (JTB) during 2019/20. In the latter part of 2019/20, the 5 C’s Strategic Partnership Project Team began to facilitate the insourcing of services. Business cases for alternative solutions were discussed for each service provided by Capita and it was decided that the HR, Payroll and Accountancy services would be re-provisioned with effect from 1 April 2020. Exchequer and IT services still remain with Capita, but at the time of writing this report, these are currently being reviewed to decide on the best options going forward for 1 April 2021.</p> <p>On 1 April 2020, the HR, Payroll and Accountancy all transitioned from Capita with no disruption to service provision.</p> <ul style="list-style-type: none"> The HR service is being adequately managed in-house. Some of the technology has been lost (ResourceLink) but a new solution will be developed in time. 		



Value for Money Risks

The impact of the exit from the 5C's contract - Findings

- For payroll, now in-house, the pay runs for April and May were satisfactory, and whilst a number of discrepancies did occur these were identified and addressed without significant impact on employees.
- For accountancy, there was an agreed finance structure put in place as Mendip District Council TUPE'D the Capita staff back in-house and agreed a joint delivery of financial services with Hart under a new contract. Whilst experiencing some issues, the finance team have been focussed on the financial year-end, producing two sets of financial statements for both Mendip and Hart District Councils to the 31 August deadline, as well as supporting the business grant response to Covid-19.

The cost of exiting the Capita contract for HR, Payroll and Accountancy was a one-off payment for Hart of some £326k excluding VAT. Whilst this £326k is an additional expense for 2019/20, Hart had put monies aside in an earmarked reserve to cover these costs.

Ongoing negotiations with Capita is a key strategic risk on the Council's Corporate Risk Register for 2019/20 and 2020/21. Regular reporting on the actions to mitigate the risk around the transfer of services has been received by the Council's Overview & Scrutiny Committee who monitor this Risk Register on a quarterly basis. Whilst the Council reports on refining relevant business cases, in line with negotiations, it also reported that there is no indication that Capita intend to cease delivering any services that the Councils are not prepared to nor will withdraw from.

In terms of whether the arrangements to exit the contract were adequate, we conclude that there were clear arrangements to manager the transition to ensure the continuity of services for HR, Payroll and Accountancy services. Whilst negotiations now turns to the remaining services, with particular focus on Exchequer Services and IT, we suggest that management carry out individual services reviews of the HR, Payroll and Accountancy services to ensure that the new services delivered the intended benefits and continue to improve service performance.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Commercialisation and the purchase of investment properties		
<p>The Council has plans to develop its commercial and investment opportunities to increase its annual income. The Council's Commercialisation Acquisition Programme, as described in the 2020/21 Budget Paper presented to Cabinet on 6 February 2020, shows the following Commercialisation investment amounts to be funded by borrowing:</p> <ul style="list-style-type: none"> • 2020/21: £16.3 million • 2021/22: £10 million; and • 2022/23: £10 million. <p>The Prudential Code, issued by CIPFA has always contained a statement that local authorities should not borrow more than, or in advance of their needs purely in order to profit from the investment of the extra sums borrowed (paragraph 46 of the Statutory Guidance on Local Government Investments). However, para 47 also states that where a local authority has chosen to disregard the Prudential Code and the Guidance, additional explanations and disclosures will be required, including risk management.</p> <p>The Guidance also requires investments to have regard to Security, Liquidity and Yield in that order.</p> <p>Additionally, the Statutory Guidance on Minimum Revenue Provision (MRP) applying from 1 April 2019 includes the requirement to establish an MRP policies, and paragraph 45 states that the duty to make MRP extends to investment properties where their acquisition has been funded by an increase in borrowing or credit arrangements. The Guidance's commentary sets out this is to ensure Council's provide for debt taken on to finance the asset over the period of that debt, with a maximum period of 50 years, consistent with the maximum period of PWLB borrowing. The Council's current policy states only that an annual review will be made to determine the most prudent method.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We will review:</p> <ul style="list-style-type: none"> • The underlying rationale for the Council's proposed investments and clarity on how this sits with the Council's strategy and objectives; • Legal powers and other advice obtained e.g. tax, investment decisions; • Compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code; • The Council's MRP policy; • Clarity of governance arrangements for the Council's decision making with regard to their investment property purchases; • Recognition and reporting of risks in the corporate/strategic risk register <p>We will also consider the extent to which the Council has demonstrated the key Prudential Code considerations:</p> <ul style="list-style-type: none"> • Existence of capital expenditure plans and a clear strategy that has regard to have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality • Demonstrating value for money in borrowing decisions • Security of borrowed funds • Extent of borrowing for investments and borrowing overall • The nature of the investment • Risks involved, including falling capital values, borrowing costs, illiquidity of assets.



Value for Money Risks

Commercialisation and the purchase of investment properties - findings

The Council's Commercialisation Strategy, dated September 2018, is currently being refreshed for November 2020. The Strategy was last considered by the July 2020 Overview and Scrutiny Committee which was reviewing the outcome of the purchase of the Council's first investment property in February 2020. Internal cash funds were used to purchase a property for £6 million and no borrowing has taken place.

Over time the Council may borrow some £50 million to invest in commercial assets to generate revenue of some £2 million a year by 2024/25 to help fund the delivery of Council services and help reduce any funding gaps. The Council's approach to MRP for its commercial investment activities is consistent with guidance, in that it sets aside 2% of the value of its investments each year to better reflect the return after borrowing costs.

In terms of governance arrangements, the Council has set up a streamlined decision making process so that it can react quickly to market events. A panel consisting of one of the Chief Executives, the Leader, the Chair of the Overview and Scrutiny Committee and the Head of Corporate Resources & Section 151 Officer considers each individual business case for property acquisition which has been prepared by the Council's Commercial and Asset Manager, a qualified surveyor. External legal and property advice is used and the financial due diligence process is well documented.

Whilst comprehensive procedures have been put in place, the Council should continue to improve risk management regarding individual commercial properties and diversify its portfolio in line with external guidance. It appears that risks associated with property investments have yet to be considered on the Council's Corporate Risk Register. We suggest that the Council's risk management process should be improved with risks identified and the actions to mitigate risks documented for individual commercial investments on a Commercial Property Risk Register, which should be actively maintained and reviewed on a quarterly basis by the Overview and Scrutiny Committee.

The Council should also consider formalising a process for analysing decisions to retain or sell properties, to manage the risk of any loss in market value of the investment. It should establish key criteria against which to make this decision, and monitor these on a consistent basis. This could also be linked into the annual capital strategy.

While no borrowing has currently taken place, the Council needs to remain aware of any further guidance regarding rules on borrowing for investment purposes, and ensure it takes ongoing legal advice to support its powers to do so.



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

- The financial information in the Statement of Accounts 2019/20 was consistent with the audited financial statements.

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

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

Whole of Government Accounts

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

We have yet to complete the return for the NAO. However, as the Council falls below the NAO threshold for audit, no further work is required in this area.

Other powers and duties

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

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

To date we have not identified any issues.

Other reporting issues

Other matters

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

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Consideration of laws and regulations; and
- Group audits;

We have nothing to report on the above matters.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

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

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics

Analytics Driven Audit

Data analytics

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

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

In 2019/20, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal Entry Analysis

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



09

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated 18 May 2020.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Committee on 28 October 2020.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020. We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

Our fees below include a rebased audit fee to account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. There is now greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts.

	Final Fee 2019/20	Planned Fee 2019/20	Scale Fee 2019/20	Final Fee 2018/19
	£	£	£	£
Planned Audit Fee - Code work	41,468	41,468	41,468	41,468
Rebased audit fee - Code work	24,500	24,500	0	0
Additional fees	Note 1	Note 1	0	21,576
Total Code fee	Tbc	tbc	41,468	63,044
Non-audit services - Housing Benefit Subsidy Claim Certification	11,738 Note 2	11,738 Note 2	n/a	11,738
Total fees	tbc	tbc	41,468	74,782

Note 1: There will be additional fees for 19/20 due to additional work required because of the following:

- Using EY Real Estate experts to assess the impact of Covid-19 on land and building valuations and the material uncertainty clause in the Authority's valuation report;
- Additional procedures to consider the Authority's going concern assessment;
- Consultation requirements concerning the Covid-19 impact on the Auditor's report.
- Additional work on the two significant VFM risk of (1) reviewing the impact of the exit from the 5 C's contract and (2) commercialisation and the purchase of investment properties
- Extra time required to complete the audit which took longer than planned due to the availability of supporting evidence and working papers.

We will quantify and discuss additional fees at the conclusion of the audit with the s151 officer. All additional audit fees are also subject to approval by the PSAA.

Note 2: The fee for housing benefit work is the base fee and does not include any extended testing; which may arise if errors are identified. From 2018-19 onwards the work falls outside the PSAA regime and is subject to a separate fee proposal and engagement terms. The work is due to take place to meet the DWP's timetable of 31 January 2021.

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:





- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	Substantively tested all assertions	Substantively tested all assertions	No change
Trade payables	Substantively tested all assertions	Substantively tested all assertions	No change
Investments	Substantively tested all assertions	Substantively tested all assertions	No change
Tangible fixed assets	Substantively tested all assertions	Substantively tested all assertions	No change
Cash	Substantively tested all assertions	Substantively tested all assertions	No change
Borrowing	Substantively tested all assertions	Substantively tested all assertions	No change
Capital grants receipts in advance	Substantively tested all assertions	Substantively tested all assertions	No change
Pensions liability	Substantively tested all assertions	Substantively tested all assertions	No change




Appendix B

Required communications with the Audit Committee




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

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report




Appendix B

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





Appendix B

		 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 Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report</p> <p>Audit results report</p>

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	All confirmations requested have been received
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit results report
Written representations we request from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we request from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report Audit Results Report
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Report

Appendix C

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Payroll walkthrough	Completion of walkthrough	EY and management
Review procedures	Final Engagement Leader and Manager review of the final position on concluded work, audit adjustments and reporting	EY
Statement of accounts	Review of the final version of the accounts	EY
Management representation letter	Receipt of signed management representation letter	Management and Audit Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Covid-19 Going concern stress testing	Query with management	EY and management
Valuation of land & buildings	Completion of residual queries and valuation estimate by EY experts, and comparison with management's valuation.	EY and management

Management representation letter

Management Rep Letter

Ernst & Young LLP
Grosvenor House,
Grosvenor Square,
Southampton.
SO15 2BE

Dear Kevin

This letter of representations is provided in connection with your audit of the financial statements of Hart District Council("the Council") for the year ended 31st March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Hart District Council as of 31st March 2020 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

We acknowledge, as members of management of Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the financial statements.

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

As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error.

We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because *[specify reasons for not correcting misstatement]*.

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

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

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

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

Management representation letter

Management Rep Letter

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

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

C. Information Provided and Completeness of Information and Transactions

We have provided you with:

Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

Additional information that you have requested from us for the purpose of the audit; and

Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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

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

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

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

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

From 17 December 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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

Management representation letter

Management Rep Letter

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

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

E. Subsequent Events

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

F. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon.

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

G. Reserves

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

H. Contingent Liabilities

We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives

concerning investigations or allegations of non-compliance.

I. Use of the Work of a Specialist

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

PPE Valuations and Pensions Liability Estimates

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Management representation letter

Management Rep Letter

We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

K. Retirement benefits

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

Yours faithfully,

Emma Foy - Head of Corporate Resources (S151 Officer)

Wendy Makepeace-Browne - Chair of the Audit Committee

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