PAPER E

Hart District Council

Annual Audit Letter for the year ended 31 March 2020

February 2021

Building a better working world

Contents

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.psaa.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 Annual Audit Letter 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.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Hart District Council (the Council) following completion of our audit procedures for the year ended 31 March 2020.

Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► 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. We worked with the Council to deliver our audit in line with the revised reporting timescale.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment and Investment Properties	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, 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 Council's internal valuer. We consider that the material uncertainties disclosed by the valuer impacted our identified risks, therefore, we engaged with our valuation specialists to review a sample of valuations and reviewed 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 council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
Impact on the scope of our audit	
► 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 Council'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.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 20 October 2020
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 26 November 2020

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

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

Section 2

Purpose and Responsibilities

Ref: EY-000092651-01

Purpose

The Purpose of this Letter
The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 27 October 2020 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 4 March 2020 and the updates as set out on page 4 to take into account the impact of the Covid-19 pandemic. It is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the Council

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

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

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 November 2020.

Our detailed findings were reported to the 26 November 2020 Audit Committee.

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

Significant Risk	Conclusion
Misstatements due to fraud or error 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.	We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We did not identify any material weaknesses in controls or evidence of material management override. We did not identify any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. We did not identify any inappropriate journal entries.
Risk of fraud in revenue and expenditure recognition Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.	We documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed. Tested the appropriateness of journal entries recorded in the general ledger between revenue and capital codes. Amended our sample sizes when testing capital additions to reflect this risk. Agreed samples to source documentation to ensure the classification was reasonable. Our testing did not identify any material misstatements from capitalising revenue spend.

Financial Statement Audit (cont'd)

Other financial statement risk	Conclusion
Valuation of investment properties and property, plant and equipment (PPE) The fair value of Investment Properties and PPE represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. These judgements cover both assets that are revalued within the year and the continuing material accuracy of those valued in prior periods. 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.	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; • Involved our valuation specialists to review a sample of assets; and • confirmed that accounting entries have been correctly processed in the financial statements. We identified one key issue from our work. The Council valued a recently purchased investment property at £6.283m. In our estimation an appropriate range for this asset was between £5.7m and £6m. Therefore, we reflected a judgemental misstatement of £0.283m, which management did not correct in the accounts.

Financial Statement Audit (cont'd)

Other financial statement risk	Conclusion
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 liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 the net pension liability totalled £28.610m. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	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 was estimated to be understated by £727k, and management adjusted for this difference. • 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 were no issues regarding the actuary's assumptions.
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 an updated detailed assessment to support its going concern assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the approval of the accounts, rather than the balance sheet date. So, for the 2019/20 statements, for example, we needed to see evidence of an assessment up to and including November 2021.	We reviewed the proposed going concern disclosures for inclusion in the financial statements and the Council's forecast cash flows. The key issues we reflected on for our assessment relate to a combination of the Council's liquidity and its level of General Fund reserves. Management's assessment demonstrated that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital. The Council updated its disclosures in the accounts to reference these factors and we were satisfied that the revised disclosure sufficiently disclosed the key elements of management's assessment and no material uncertainties exist.

Financial Statement Audit (cont'd)

Other key findings	Conclusion
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. We highlight the following misstatements greater than £0.046m identified during the course of our audit which management corrected: 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. 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 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.
Audit differences	Management chose not to correct the following judgemental misstatement as it was not material to the financial statements: ‣ An investment property's value was judged to be overstated by £0.283m as it exceeded the top of the value range assessed by our specialist valuers of £5.7m to £6m.

Financial Statement Audit (cont’d)

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £0.914m (2019: £0.867m), which is 2% of gross revenue expenditure reported in the draft accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.046m

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

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

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

Section 4

Value for Money

Value for Money

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

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

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

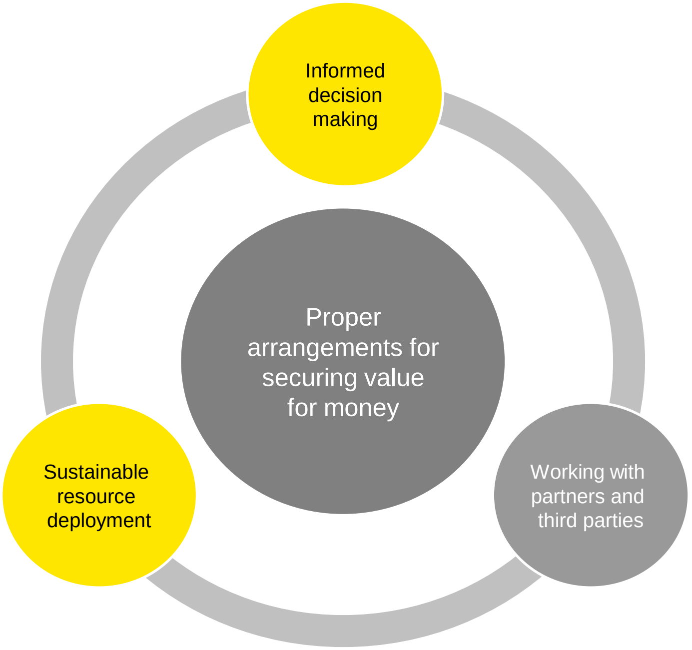
On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Government bodies' response to Covid-19 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.

We identified two significant risks at the planning stage of the audit which were:

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

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

Overall, we issued an unqualified value for money conclusion on 26 November 2020.



Value for Money (cont'd)

What was the risk?	What did we do?
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). 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.	We: ‣ reviewed the arrangements in place to monitor the exit of the 5 C's contract for the relevant services. ‣ reviewed the arrangements to plan and implement the revised delivery arrangements, including risk management processes.

Findings

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. On 1 April 2020, the HR, Payroll and Accountancy all transitioned from Capita with no disruption to service provision.

- 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.
- 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 (cont'd)

What was the risk?	What did we do?
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: ‣ 2020/21: £16.3 million ‣ 2021/22: £10 million; and ‣ 2022/23: £10 million. 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. The Guidance also requires investments to have regard to Security, Liquidity and Yield in that order. 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.	We reviewed: ‣ 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 We also considered the extent to which the Council had demonstrated the key Prudential Code considerations: ‣ 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 (cont'd)

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.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

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

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

Annual Governance Statement

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

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

Report in the Public Interest

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

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

Written Recommendations

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

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

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 27 October 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Other Reporting Issues (cont'd)

Control Themes and Observations

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

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Appendix A

Audit Fees

Audit Fees

Our final fee for 2019/20 has been impacted by a range of factors which has resulted in additional work as reported in our Audit Results Report.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work	41,469	37,799	41,469	63,045
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 26)	24,500			N/A
Revised proposed scale fee	**65,969**			
Additional work required for going concern and Covid-19 considerations (Note 1)	2,443			
Additional work required for Investment Property/PPE valuation (Note 2)	3,392			
VFM risks (Note 3)	5,101			
Prior year restatements (Note 4)	765			
Pension IAS19 procedures (note 5)	892			
Other overruns and remote working impacts (Note 6)	6,416			
Total Audit Fee	**84,978**			
Non-audit work – Claims and returns	TBC**	11,738	n/a	11,738

Audit Fees (cont'd)

Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees (PSAA fee consulation), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond (Redmond Review) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 7 July 2020 (delayed from March 2020 due to the impact of the coronavirus pandemic, and the Council's change of s151 officer)

We reached agreement on the proposed scale fee variation. Management recognised many of these pressures and can see how they are reflected in the changes in the audit work.

We will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us.

Audit Fees (cont'd)

Note 1: Going Concern
To review management's assessment and additional disclosures that were required in relation to going concern and our internal consultation process undertaken to ensure that events and conditions in relation to the going concern assumption are adequately disclosed.

Note 2: Property valuations
To engage EY Real Estate, our internal property specialists, to review a sample of valuations of investment properties and EUV assets to ensure the impact of Covid-19 is taken into account in the valuations.

Note 3 VFM risks
This is the additional cost for the 2 value for Money risks set out in section 4, and an update of the initial risk assessment to ensure no significant Covid-19 impact.

Note 4: Prior year restatement.
The Council included prior year restatements within its draft accounts. This is the cost of reviewing those amended prior year figures.

Note 5: Pension IAS19 procedures
This is the cost of procedures undertaken at the Hampshire Pension Fund to provide assurance on the data sent from the Pension Fund to the Council's actuary.

Note 6:Other
This includes the time and cost incurred for delays experienced during the audit, caused by issues such as poor quality evidence provided and inconsistencies of the accounts to the underlying working papers. It also includes the additional time taken due to the pandemics impact and need to conduct the audit remotely.

This additional fee is currently under discussion with the Head of Corporate Services and is subject to approval by the PSAA.

**Our fees for the work on the Housing Benefit Subsidy claim will be finalised after the completion of the work, due by 31 March 2021 as the Council has agreed an extension with the DWP.

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