

Hart District Council Draft Audit results report

Year ended 31 March 2021
22 November 2021



Hart District Council
Civic Offices
Harlington Way
Fleet GU51 4AE

22 November 2021

Dear Audit Committee Members

2021 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 07 December 2021 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2021 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Hart District Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 07 December 2021.

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

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

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



01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 25th May Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services and 75% of planning materiality, our year-end testing is completed to the levels noted in the table below.

Materiality - Council	Audit Plan	Draft Financial Statements
Planning	£926k	£849k
Performance	£694k	£637k
Reporting	£46k	£42k

Executive Summary

Scope Update

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

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
- Agreed IPE to scanned documents or other system screenshots.

Status of the financial statements audit

Our audit work in respect of the Council opinion is substantially complete. As at the date of writing this report, we have now received the amended version of accounts and we are in the process of reviewing the adjustments to complete our final procedures and ensure all audit adjustments have been processed as appropriate. We recognise that there have been delays during the audit due to various factors including staff sickness/planned absences, external valuer's delays.

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix B.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 3.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Status of the audit - Value for Money

We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21. We are currently completing our work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place. As at the date of this report we are not reporting any significant weakness in arrangements. However, we will inform the Committee should we identify any risk of significant weakness during our procedures in line with the updated requirements of Code of Audit Practice 2020.

We note that we have also received an objection on the financial statements of the Council which is currently under review as we wait for responses to follow-up queries from management. We will consider the information outlined in the objection and the response from the Council to assess the overall impact this may have on our value for money risk assessment.

We will provide an update at the Audit Committee meeting on our progress. This update will also include the timelines for receipt of the VFM Commentary which will include details against each of the three sub-criteria.

Objections

We have received an objection to the 2020/21 accounts from members of the public.

We are currently assessing this objection and seeking legal advice as appropriate. We have requested a response to our follow-up queries from the Council as part of our procedures which we will evaluate together with the Value for Money implications. This means that we cannot issue our opinion due to the potential impact or conclude our work on value for money arrangements.

Executive Summary

Audit differences

As at the date of this report, we are reporting 2 corrected misstatements for the Council which are above our performance materiality of £637k:

- reclassification of Civic offices from Investment Property (IP) to Property, Plant and Equipment (PPE) of £2.9m;
- an adjustment in the treatment of Local Restrictions Support Grant (LRSO Open), Local Authority Discretionary Fund and Additional Restricted Grant from agent to principal for the total amount of £3.7m; and

We would also like to note that there were amendments arising out of our challenge to the external valuer which are discussed in Section 2 of the report. The main impact was noted on two assets where purchasers' cost was not deducted appropriately and led to downward valuation of £468k.

There is currently 1 uncorrected misstatement greater than our reporting threshold for uncorrected misstatements of £42k. This relates to purchasers' cost amendment by the external valuer not being deducted at the market level expected as at 31/03/2021 and has an overall impact of £66k across two assets.

There have been a few presentational and disclosure amendments which we have identified and have been corrected by management.

See Section 4 of this report for further details of the differences. We will also provide an update at the Audit Committee meeting and a final position at the conclusion of the audit.

Other reporting issues

As part of our procedures, we review the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. The objection received may impact on the information within the Annual Governance Statement, therefore, we cannot complete the procedures until the objection is determined.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. Officers are not expected to receive the final guidance supporting the WGA submission until December 2021. Therefore, our work on WGA will begin once the guidance is available. We have no other matters to report.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Hart District Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

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

Control observations

During the audit, we identified two deficiencies in internal control, which are highlighted in Section 7 of this report.

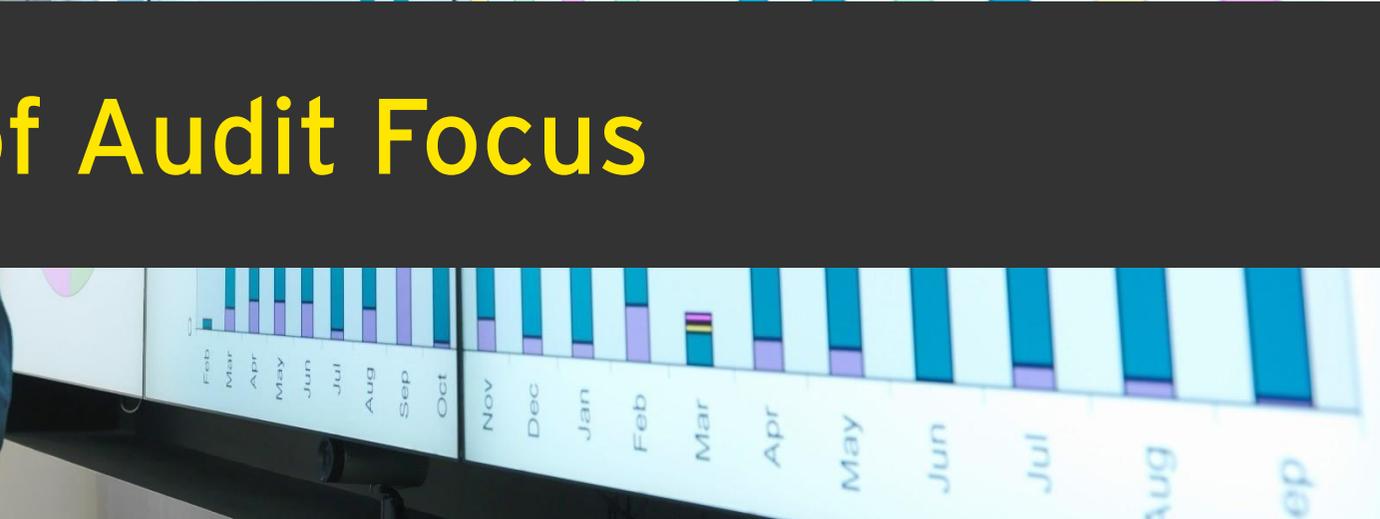
The first relates to Section 106 contracts where a debtor was raised by the Council when a trigger point for payment was believed to be completed. However, we noted that this was not achieved at the point debtor was recognised. Robust monitoring of trigger points was also raised as a recommendation during the internal audit review of Section 106 agreements and management have responded to the recommendations raised.

The other point relates to delay in posting invoices/credit notes in the general ledger.

Independence

In our Audit Plan presented at the 25 May Audit Committee meeting we did not identify any independence issues.

There are no updates to report. Please refer to Section 9 for further information.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and conclusions.

Misstatements due to fraud or error*

What is the risk?

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

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

What judgements are we focused on?

How management address to the risk of material misstatement due to fraud or error through the policies and procedures put in place at the Council.

What did we do?

We:

- ▶ Enquired of 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.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Reviewed accounting estimates for evidence of management bias.
- ▶ Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

We have not identified any:

- ▶ material weaknesses in controls or evidence of material management override;
- ▶ instances of inappropriate judgements being applied; or
- ▶ other transactions during our audit which appear unusual or outside the Council's normal course of business.

We noted a delay in posting credit notes to the general ledger during our journal entry testing which we have raised as a control observation in Section 7 of the report.



Areas of audit focus

Significant risk

Inappropriate capitalisation of revenue expenditure due to fraud or error*

What is the risk?

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

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

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure, including consideration of REFCUS.

What did we do?

We sample tested 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.

We also sample tested REFCUS in line with the audit plan to check that these have been recorded appropriately.

What are our conclusions?

Our testing in this area is complete and we have no material findings to bring to your attention.

Journal testing - our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised is also complete. We have not noted any material issues in this area to bring to your attention.



Areas of audit focus

Other areas of audit focus

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

What is the risk/area of focus?	What did we do?
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Valuation of Property, Plant and Equipment (PPE) and Investment Property (IP)	Our work on valuations is complete subject to reviewing agreed changes to the final set of accounts.
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The value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and, for PPE, depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. These judgments cover both assets that are revalued within the year and, the continuing material accuracy of those valued in prior periods.

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

Our work on valuations is complete subject to reviewing agreed changes to the final set of accounts.

We:

- ▶ 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;
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We also considered if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers;
- ▶ Reviewed PPE assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered the potential impact of Covid-19 on valuation uncertainties;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements.

Throughout our work on valuation of PPE and IP, we evaluated the potential impact of Covid-19 on valuation uncertainties by challenging assumptions and methodology used by the external valuers.

Continued on next page.



Areas of audit focus

Other areas of audit focus

What is the risk/area of focus?

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

Continued from previous page

What did we do? (Continued)

As part of our testing, we challenged the valuer on the following points:

- 1) The valuer made an error in the area used for Frogmore Leisure Centre's hockey pitch. This resulted in an increase in the value of the asset of £133k.
- 2) We challenged the valuer's methodology around purchasers' cost and it was agreed that these were not appropriately deducted from assets valued. The main impact was on two properties which led to a cumulative reduction in their value of £468k. We also note that the amended purchasers' cost were not calculated at the current market rate by the external valuer. This led to a further uncorrected variance of £66k reported in Section 4 of this report.
- 3) The valuer's report incorrectly classified Civic offices as an investment property (IP) whereas it is mainly held for operational use and therefore should be within property, plant and equipment (PPE). This led to a reclassification of £2.9m from IP to PPE.
- 4) The valuer has used agricultural land values for the entire area of two leisure centres however as per RICS guidance and methodology, including our internal valuation team's input from prior year review and current year discussions, we view that the valuer should use commercial land value for built up areas and agricultural land values for non-built up area. While we note that the overall values of the two leisure centres are within the expected range, albeit at the lower end of the range, we have flagged this with the valuer for consideration in the future years.

We note that there are had been some delays in obtaining the required information. We will include this in our post-audit wash up discussion with officers to ensure we can have a smoother audit process in the coming year including further scrutiny of valuer's approach and methodology by management.



Areas of audit focus

Other areas of audit focus

What is the risk/area of focus?

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

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

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

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

What did we do?

We are required to meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- Challenging management's identification of events or conditions impacting going concern.
- Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenging the disclosure made in the accounts in respect of going concern.

We discussed the detailed implications of the revised auditing standard with finance staff and noted the information provided in the committee papers, budget and the Medium Term Financial Strategy (MTFS) in support of the going concern disclosure.

We have received an assessment of the Council's going concern basis of preparation of accounts. We will conclude on this area ahead of completing the audit to ensure our assessment considers at least the status for 12 months from the date of signing the accounts. However, we have nothing to draw to your attention at the date of preparing this report.



Areas of audit focus

Other areas of audit focus

What is the risk/area of focus?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £27.88 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Accounting for Covid-19 grants

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

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

What did we do?

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

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

We considered the Council's judgement on material grants received in relation to whether it is acting as:

- An Agent, where it has determined that it is acting as an intermediary; or
- A Principal, where the Council has determined that it is acting on its own behalf.

We had experienced delays in receiving the requested information as this was a new area in the current year, however we have completed our review of the treatment of each material grant as agent or principal in line with our planning report. We also compared this with the wider benchmarking exercise across our clients and raised a number of points of clarification with officers. We noted the following variances which were amended by the Council:

- LRSO (open) scheme was incorrectly classified as agent due to it being one grant (LRSO) split into two schemes - open and closed - with different treatments for both schemes. The amount received by the Council was £201k.
- Local Authority Discretionary Grant Funding (LADGF), Additional Restrictions Grant (ARG) and £59k of Self Isolation Grant were incorrectly recorded as agent whereas the Council has discretion over its use which should result in classification as principal. Total amount of the LADGF was £700k and ARG was £2.8m.



03 Audit Report



Audit Report

Draft audit report 20-21

The report below is our draft version. In particular 'Matters on which we report by exception' can only be concluded when the objection is completed.

Our draft 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 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Comprehensive Income and Expenditure Statement
- ▶ Movement in Reserves Statement,
- ▶ Balance Sheet,
- ▶ Cash Flow Statement,
- ▶ the related notes 3.01 to 3.14, 4, 5.01 to 5.17, 6.01 to 6.04 and 7.01 to 7.08, and,
- ▶ Collection Fund and the related notes 8.1 to 8.2

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 2020/21.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Hart District Council as at 31 March 2021 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 2020/21.

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 the Council 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

In auditing the financial statements, we have concluded that the Head of Corporate Services and s151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Head of Corporate Services and s151 Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.



Audit Report

'Matters on which we report by exception' can only be concluded when the objection is completed.

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Head of Corporate Services and s151 Officer is responsible for the other information contained within the Statement of Accounts 2020/21.

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.

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 course of 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 themselves. 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.

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;
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- ▶ we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects



Audit Report

'Matters on which we report by exception' can only be concluded when the objection is completed.

Our draft opinion on the financial statements

Responsibility of the Head of Corporate Services and s151 Officer

As explained more fully in the Statement of Responsibilities set out on page 14, the Head of Corporate Services and 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Corporate Services and 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. 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.



Audit Report

'Matters on which we report by exception' can only be concluded when the objection is completed.

Our draft opinion on the financial statements

We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:

- Local Government Act 1972,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how Hart District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit, and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the council's committee minutes, through enquiry of employees to confirm council policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified, inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, in common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk. We tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

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.



Audit Report

'Matters on which we report by exception' can only be concluded when the objection is completed.

Our draft opinion on the financial statements

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 reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether Hart District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those 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 2021.

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.

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.

[OR]

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

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 the Council and the Council's 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
Date



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 adjusted differences

We highlight the following misstatements greater than performance materiality of £637k which have been corrected by management that were identified during the course of our audit:

- ▶ Reclassification of Civic offices from Investment Property (IP) to Property, Plant and Equipment (PPE) of £2.9m;
- ▶ An adjustment in the treatment of Local Restrictions Support Grant (LRSO Open) (£0.2m), Local Authority Discretionary Fund (£0.7m) and Additional Restricted Grant (£2.8m) from agent to principal for the total amount of £3.7m; and

We would also like to note that there were amendments arising out of our challenge to the external valuer which are discussed in detail in Section 2 of the report which we have included in this section from a qualitative perspective. The main impact was noted on two assets where purchasers' cost was not deducted appropriately and led to downward valuation of £468k.

We also noted some disclosure differences that will be amended by the finance team.

Summary of unadjusted differences

In addition, we highlight the following misstatements to the financial statements which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:



Audit Differences

Uncorrected misstatements 31 March 2021 (£'000)		Effect on the current period:	Net assets (Decrease)/Increase				
			OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)
Errors							
Known differences:							
This relates to purchasers' cost amendment by the external valuer not being deducted at the market level expected as at 31/03/2021 and has an overall impact of £66k across two assets.		£66		(£66)			
Balance sheet totals	-	-	0	(£66)	0	0	
Income effect of uncorrected misstatements							
Cumulative effect of uncorrected misstatements before turnaround effect	£0	£66	£0	(£66)	£0	£0	
Turnaround effect. Note 1: turnaround effect is the post-tax impact of uncorrected misstatements related to the prior period, on results of the current period. This was due to purchasers' cost not being deducted from an investment property in the prior year.		£283					
Cumulative effect of uncorrected misstatements, after turnaround effect	£0	£349	£0	(£66)	£0	£0	

As we review the amended version of financial statements, it is possible that further amendments may arise. We will provide an update at the Audit Committee meeting and a final position at the conclusion of the audit.



05

Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

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

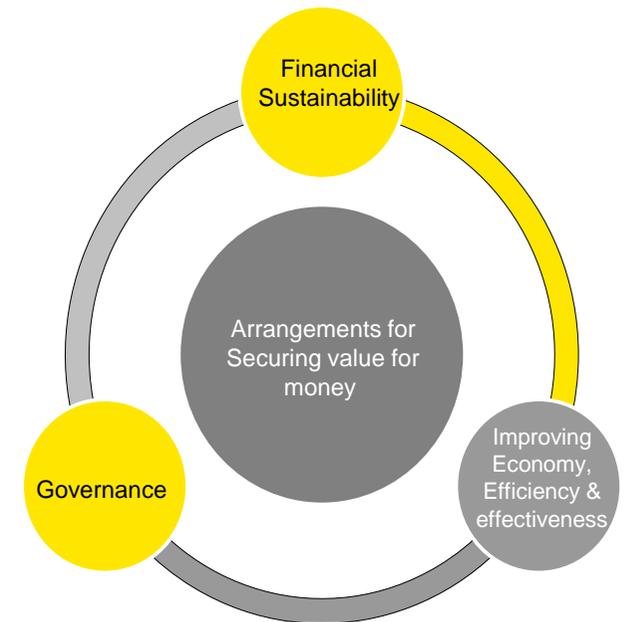
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21. We are currently completing our assessment and reviewing the Council's arrangements against the three sub-criteria. This includes meetings with senior officers to understand in detail the arrangements in place. As at the date of this report we are not reporting any significant weakness in arrangements. However, we will inform the Committee should we identify any risk of significant weakness during our assessment procedures in line with the updated requirements of Code of Audit Practice 2020.

We note that we have also received an objection on the financial statements of the Council which is currently under review as we wait for a response to our follow-up queries from management. We will consider the information outlined in the objection and the response from the Council to assess the overall impact this may have on our value for money assessment.

We will provide an update at the Audit Committee meeting on our progress. This update will also include the timelines for receipt of the VFM Commentary which will include details against each of the three sub-criteria.





06 Other reporting issues

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 2020/21 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.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

The objection received includes reference to information within the Annual Governance Statement. Therefore, we are in the process of reviewing the Annual Governance Statement and will provide an update at the next Audit Committee meeting.

Whole of Government Accounts

Alongside 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 been made aware that the system as well as guidance to complete this will not be available until December 2021. Therefore we are currently unable to commence our work on the Whole of Government Accounts.

Other reporting issues

Other reporting issues

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 are currently in the process of reviewing the objection received on the statement of accounts, which has requested us to consider issuing a report in the public interest. We will provide an update at the Audit Committee meeting.

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 Council'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;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

As at the date of this report we have nothing that we need to bring to the attention of the Audit Committee in respect of Other Matters except:

- We note that there is a difference of approx. £120k that is currently being reviewed and relates to indexation on the joint waste contract. The independent reviewer's report contains a recommendation to review the indexation figure for 19/20 and also charge Basingstoke and Deane Borough Council for any outstanding indexation amounts. The work on this area is ongoing by the Council and will be reviewed once complete.
- There were 5 declaration of interest returns from Councillors/senior offices that were outstanding at the time of completing our procedures. We have performed alternate procedures and did not identify any material risks of undisclosed related parties.



07

Assessment of Control Environment

Assessment of Control Environment

Financial controls

As part of our audit of the 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 noted two areas to bring to your attention below.

Area	Section 106	Rating	Medium
Observation	During our audit procedures, we noted that a debtor of £391k was raised before completion of the milestone required to trigger receipt of Section 106 amount. We note that robust monitoring of trigger points was also raised as a recommendation during the internal audit review of Section 106 agreements in the current year and management have responded to the recommendations raised. While a credit note was raised by the Council and the debtor has been reversed following our audit procedures, we believe this is an area of improvement for the future.		
Impact	Reversal of £391k debtor in the financial statements		
Management comment	Trigger will points be recorded in the Section 106 monitoring spreadsheet and be monitored via the quarterly monitoring process.		

Assessment of Control Environment

Area Posting of invoices/credit notes

Rating Medium

Observation

- 1) During our journal entry testing, we noted that there was a delay in posting credit notes for invoices raised in error (e.g. due to incorrect address). In both cases the credit notes were issued in January/March 2020 and therefore related to FY 19/20 but posted to the GL in November 2020 and accounted under FY 20/21.
- 2) A correction of the waste contract charge was identified by the Council related to charges until FY 2020/21. This was supported through a reconciliation exercise by an external independent reviewer with a total impact of £950k on the I&E. This was also picked up during our current year testing of income and expenditure transactions.
This difference was partly due to delays in raising invoices, and the independent reviewer noted that recharges to Basingstoke were not always done on a monthly basis.

Impact

A delay in posting to the general ledger could lead to income/expenditure not being appropriately recognised in the correct year. As the amount of the two invoices in point 1 above was not material a back-posting to prior period ledger was not considered necessary.

However, the impact of difference highlighted in point 2 above currently has an impact of £950k on the I&E and there could be further difference of approx. £120k which is being investigated as reported in 'Other Matters' in Section 6 of this report.

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

Management comment

Accounts Receivable was part of Capita during FY 2020/21, and this has transferred over to Hart on 01 April 2021.

Further work is underway to review the indexation charges on the waste contract.



08 Data Analytics



Management Override of Controls

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end to adjust the general ledger, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples and focusing on higher risk areas.

What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

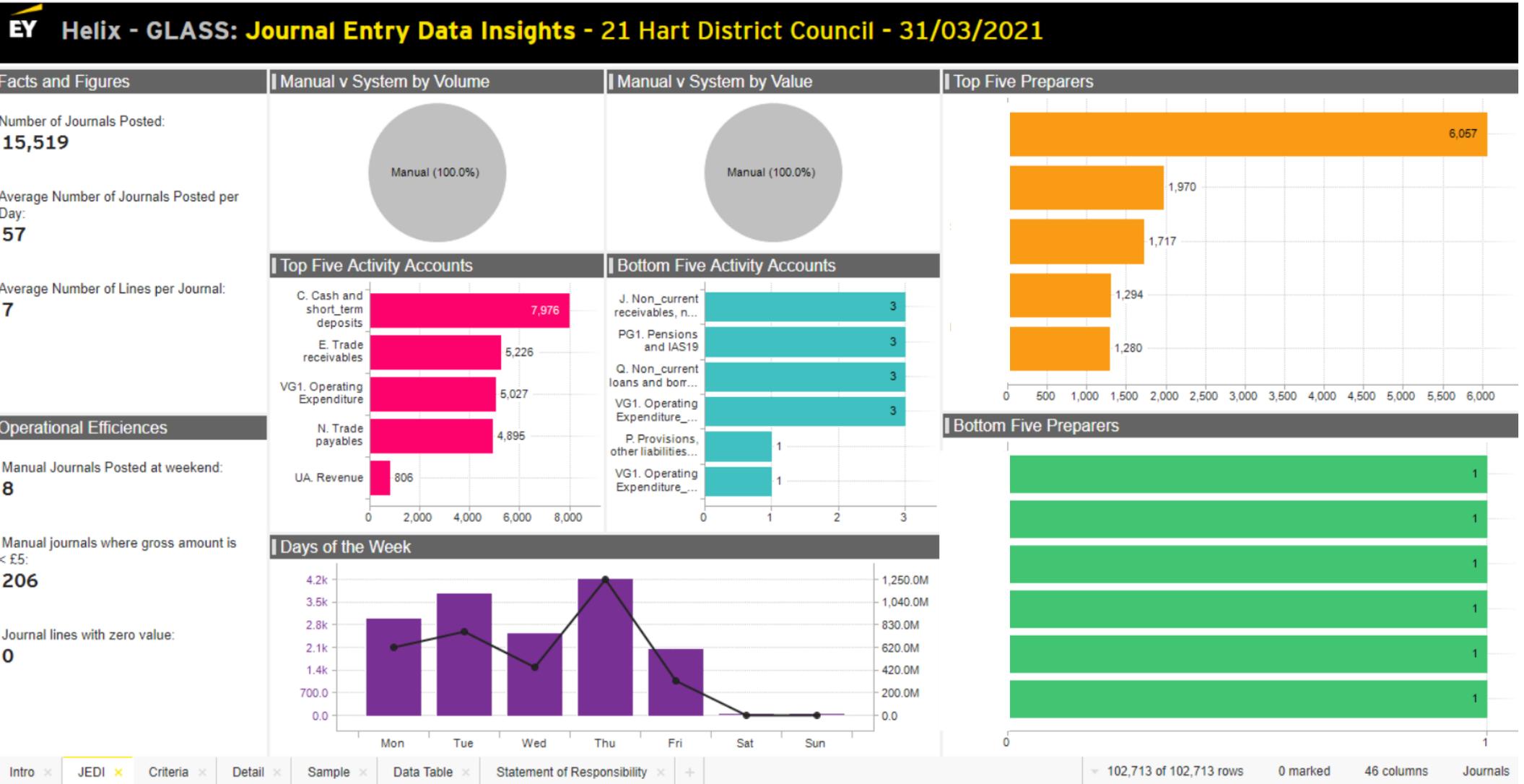
We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

At the date of writing this report and following completion of our procedures we have no material differences to report in this area.

Hart District Council 31 March 2021

The graphic outlined below summarises the journal population for 2020/21. We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions included in our data subset.





09

Independence

Relationships, services and related threats and safeguards

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

- There are no relationships from 01 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. We are continuing to provide non-audit services as reporting accountant for your Housing Benefit Assurance Process (HBAP) to the DWP which is a permitted service.
- We believe that it is appropriate for us to undertake this permitted non-audit services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved

Services provided by Ernst & Young

Description	Planned Fee 2020/21 £	Final Fee 2019/20 £
Audit Scale Fee - Code work	41,469	41,469
Scale fee variation - e.g. Covid-19, changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	TBC	31,181
Impact of the New Code of Audit Practice, and revised ISA540 (Note 2)	TBC	n/a
Objection to the accounts	TBC	n/a
Total Code audit fee	TBC	72,650
Other non-audit services not covered above (Housing Benefits)	11,758	14,258
Total fees	TBC	86,908

Notes:

1. PSAA have determined the scale fee variation for 2019/20. The variation for 2020/21 will be completed, discussed with management and submitted to PSAA at the completion of the audit.
2. Additional fees are likely for 2020/21 for the ongoing changing risks associated with Covid-19, as set out within this report, and for the Objection.. PSAA have written to all local authorities to indicate a range of fees for the impact of the 2020 Code of Audit Practice and new auditing standards. We are currently unable to quantify the impact until the completion of the audit.

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

[EY UK 2021 Transparency Report | EY UK](#)

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

Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. 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 presented at the 25 May Audit Committee meeting
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report presented at the 25 May Audit Committee meeting
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 A

		 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 related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul 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
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report
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 	Audit planning report presented at the 25 May Audit Committee meeting, and Audit results report

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
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. 	Audit results report
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 	Audit results report

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
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
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting 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"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report

Appendix B

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 
Annual Governance Statement (AGS) 20-21	EY to review the AGS to ensure that it is consistent with the Council and assess any impact of the Objection	EY and management
Review of final changes	<p>Management have now shared the amended draft version of accounts and EY to undertake review.</p> <p>We recognise that there have been delays during the audit due to various factors including staff sickness/planned absences, external valuer's delays.</p> <p>EY to review response to close down areas.</p>	EY and management
Going concern review and disclosures	EY to review Going Concern position to ensure coverage of 12 months from signing the opinion.	EY and management
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
Objection	Completion of the objection process	EY and management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Statement of Accounts. At this point no issues have emerged that would cause us to modify our opinion. A draft of the current opinion is included in Section 3.

Draft Management Representation Letter

Draft Management Rep Letter

Ernst & Young LLP

Grosvenor House
Grosvenor Square
Southampton
Hampshire
SO15 2BE

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 31 March 2021. 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 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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), 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

1. 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 2020/21.

2. We acknowledge, as members of management of the 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 Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. 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 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. 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.

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

1. We acknowledge that we are responsible to determine that the 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.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. 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

Draft Management Rep Letter

4. 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, 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 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 Authority’s activities, its 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

1. 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.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Full Council, Cabinet and Audit 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*.
4. 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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
6. 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.
7. From the date of our last management representation letter (25 November 2020) 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.

Management representation letter

Draft Management Rep Letter

D. Liabilities and Contingencies

1. 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.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. 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. Going Concern

1. Note 7.08 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than described in Note 5.16 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, investment properties, and pension 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.

I. Estimates

1. We confirm that the significant judgments made in making the accounting estimates for the valuation of property, plant and equipment, investment properties, and the pension liability have taken into account all relevant information and the effects of the COVID-19 pandemic, of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out any relevant course of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Appendix C

Management representation letter

Draft Management Rep Letter

5. We confirm that appropriate specialized skills or expertise has been applied in making estimates.
 6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.
- J. Retirement benefits**
1. 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,

Head of Corporate Services and s151 Officer

Chairman of the Audit Committee

Appendix D

Implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the council until 1 April 2022. However, officers should be acting now to assess the council's leasing positions and secure the required information to ensure the council will be fully compliance with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures 
Data collection	<p>Management should:</p> <ul style="list-style-type: none"> ▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	<p>The council needs to agree on certain policy choices. In particular:</p> <ul style="list-style-type: none"> ▶ Whether to adopt a portfolio approach ▶ What low value threshold to set and agree with auditors ▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▶ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	<p>Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).</p>
Transitional accounting arrangements	<p>Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.</p>
Ongoing accounting arrangements	<p>Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.</p>
Remeasurements and modifications	<p>Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.</p>

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