



Hart District Council

**Auditor's Annual Report
Year ended 31 March 2021**

11 April 2022



EY

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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.psaa.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.

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: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 22 March 2022.
Going concern	We have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of other information published with the financial statements	Financial information in the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 09 March 2022 to the 22 March Audit Committee.
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 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks and errors in relation prior year adjustments, valuation of Property, Plant and Equipment (PPE) and Investment Property (IP), pension liability valuation and accounting for Covid-19 related grants. We also undertook work to address an objection to the Council's accounts. As a result, we will agree an associated additional fee with the Section 151 Officer. We include details of the final audit fees in Appendix 1.

We would like to take this opportunity to thank the Council 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



Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 06 May 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, annual report and governance statement. It 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

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

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

On 24 March 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 22 March 2022 Audit Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit 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.	<p>We did not identify any material weakness in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied, or of any management bias in accounting estimates.</p> <p>We did not identify any inappropriate journal entries or other adjustments to the financial statements.</p>
Inappropriate capitalisation of expenditure Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	<p>Our sample testing of additions to Property, Plant and Equipment found that they had been correctly classified as capital and included at the correct value.</p> <p>Our sample testing did not identify any revenue items that were incorrectly classified.</p> <p>Our data analytics procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.</p>

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
Valuation of Property, Plant and Equipment (PPE) and Investment Property (IP) 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.	<p>Our testing of valuation of Property, Plant and Equipment (PPE) and Investment Property (IP) found differences where we challenged the valuer's methodology. We brought these to the attention of the Audit Committee in our report at the 07 December 2021 meeting.</p> <p>At the 22 March 2022 meeting, we communicated that we reviewed the agreed changes to the amended set of accounts and had no other matters to bring to the attention of the Audit Committee in this area.</p>

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
Ongoing Covid-19 implications, including ISA 570 Going Concern and Disclosure considerations	We did not identify any events or conditions in the course of our audit that may cast significant doubt on the entity's ability to continue as going concern.
<p>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.</p> <p>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.</p> <p>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.</p>	<p>Management had used the basis of their assessment to produce the disclosures included within the draft financial statements. We are satisfied that the revised disclosure note appropriately sets out the circumstances surrounding the financial implications prevalent at the date of authorisation of the financial statements.</p>

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p>Accounting for Covid-19 related grant funding</p> <p>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.</p>	<p>Our sample testing of Covid-19 related grant funding identified grants that were incorrectly classified. These were corrected by the finance team.</p> <p>No other material issues noted.</p>
<p>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.</p>	
<p>Pension Liability valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>The Council's pension fund 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.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We completed our procedures as per our audit plan and did not identify any material differences to report.</p> <p>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 had no material differences to report in this area.</p>

Continued over.

Financial Statement Audit (continued)

Audit differences

Management corrected, within the authorised financial statements, audit differences in relation to:

- ▶ 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 (LRSG 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 of PPE and IP 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.

Prior period adjustment:

Due to finalisation of the report on waste contract charges, we proposed that the Council add a prior period adjustment to the accounts due to the materiality of amounts of this difference along with the S106 debtors difference that was raised in the previous Audit Results Report at the 7th December 2021 committee. This led to a correction of £1,324k in 2019/20 figures in the accounts. The details of these adjustments are below:

(i) Waste Contract Accruals - A review of the waste contract identified that two invoices had been mistreated as debtors instead of creditors and two invoices had been omitted from the accounts resulting in net expenditure within Environmental and Technical Services being understated by £929k in the comprehensive income and expenditure account. On the balance sheet, debtors were overstated by £371k and creditors understated by £558k.

(ii) Section 106 Debtor - A S106 debtor invoice had been incorrectly recognised within 2019/20 accounts where the agreement trigger point had not yet been activated. This resulted in net expenditure within Community Services being understated by £395k and debtors on the balance sheet being overstated by £395k.

We identified a small number of misstatements in disclosures which management corrected. However, management did not adjust the accounts for the following on the basis of materiality:

- ▶ Purchasers' cost 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.
- ▶ Prior year difference's turnaround effect (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.

Financial Statement Audit (continued)

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 £923k, as 2% of gross revenue expenditure reported in the 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 £46k.

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:

- ▶ Cash/bank balance: We audited all disclosures and undertook procedures to confirm material completeness
- ▶ Remuneration disclosures: We audited all disclosures and undertook procedures to confirm material completeness.
- ▶ Related party transactions. We audited all disclosures and undertook procedures to confirm material completeness

Section 4

Value for Money



Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 07 December 2021 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the Section 151 Officer and her team and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21. However, we noted that we had also received an objection on the financial statements of the Council which was under review.

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

Reporting

We completed our planned VFM arrangements work on 09 March 2022 which included the conclusion on the objection to Council's accounts and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

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

VFM Commentary

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

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

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Medium-Term Finance Strategy (MTFS) is reviewed twice annually and involves discussions with the Chief Executive (CE), Head of Corporate Services and presented in committee meetings to make those charged with governance aware of most significant pressures arising. The Finance Manager is in regular discussion with the Business Partners (BPs) in the monthly catch ups. All services are assigned a BP and their role is to be in regular discussion within their services to identify financial pressures arising. The MTFS contains a 5-year projection of net expenditure and funding sources and highlights any funding gaps arising.

It maintains an update to date medium term financial strategy

Where there are significant changes occurring in the year which affect the MTFS assumptions, these will be built into the MTFS workings to see the effect. In 2020/21 this resulted in an MTFS being taken to the Cabinet in September 2020. The 21/22 Budget and MTFS was taken to Cabinet in December 2020. During 20/21, updates on the budget were taken to the Cabinet and Council meetings in October 2020, January 2021 and March 2021. This is taken to the committee meetings by the Head of Corporate Service/S151 Officer and collated through internal meetings to monitor the financial impact of services.

VFM Commentary

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Arrangements are in place to identify funding gaps and assess plans to address them. It keeps these plans under review, such as amending the commercial strategy in light of the Covid-19 pandemic.

Budgets are set with regard to priorities, and monitored.

Pressures are reported to the committee meetings in a transparent manner and taken into account in the MTFS. Further financial monitoring is also introduced where needed due to the impact of Covid-19 as the Council made a large number of payments of government grants as an agent/principal. This monitoring tracked the expenditure incurred against the grants received and reported back to the distributor of grants. Any additional expenditure as a result of Covid that required approval was approved by the Chief Executive and then reported to Cabinet. This was generally where additional expenditure was needed at short notice for items specifically as a result of Covid-19.

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

The MTFS contains a 5-year projection of net expenditure and funding sources and highlights any funding gaps arising.

As a result of the gaps identified the Council carried out an exercise to identify opportunities to save money or generate income and benefit local community. The ideas arising were moderated by the Chief Executive, Head of Corporate Services and relevant committees to set a 5-year Corporate Plan/Commercial Strategy of projects to be delivered. This plan is updated and extended as further funding gaps are identified.

Progress on delivery of the plan is reported to the Cabinet through the MTFS. While the Council has a plan in place, it is recognised that Covid-19's impact on the economy is likely to reduce the number of Commercial Opportunities with short term gain and the need to review investment strategy. The Council notes that there is risk involved in this approach however reserves are also maintained to solve short-term issues.

The Council is also aware of CIPFA's review of related guidance, which may impact its commercial strategy.

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

Formal budget setting is carried out in advance of the relevant financial year with updates during the year as appropriate. This involves discussions between service manager and their Business Partners to ensure that funding is built in to deliver the statutory priorities on a monthly basis.

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

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

Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

Operational changes are identified by Business Partners during the year through discussion with their service budget holders; they are also involved in checking any reports going to overview and scrutiny committee which have financial implications. This will include specific plans for the organisation. Any significant changes are highlighted in the budget monitoring/MTFS.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Budget monitoring and updates feed into the MTFS, and the capital programme is aligned with revenue impacts.

The Council has a number of well-established partnerships which are built into the normal budgetary control processes. Any significant changes to the partnership will be subject to reports to the overview and scrutiny committee which will highlight the financial implications. Business Partners as well as the Head of Corporate Service will be involved in the production of these reports and can capture the implication for the financial plan.

There is an established monitoring process carried out by the finance team which feeds into the annual budget monitoring and the MTFS. Projects to be added to the Capital programme are subject to the completion of a capital budgeting spreadsheet. The funding needs for the resulting capital programme are discussed between the Finance manager, Capital Programme manager and ultimately with the Head of Corporate Service. Any need for revenue contributions or use of reserves is also identified and monitored through the monthly finance meetings.

It was noted that due to the impact of Covid-19, focus was directed on responding to the pandemic and as a result of which the investment programme was deferred. We also note that the Cabinet in Sept 2021 agreed an additional business case be explored to bring forward the next revision of the Local Plan as well as identify business cases for savings to feed into the MTFS. This shows that the Council responds to the current economic condition to ensure plans are consistent across its various strategies/budgeting.

Financial sustainability (continued)

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Monthly budget monitoring identifies risks and changes impacting significant financial planning assumptions.

The monthly budget monitoring process examines all income and expenditure against budgets. It highlights at an early stage where expenditure is being incurred but where insufficient or no budgetary provision exists. Monthly meetings are held with Head of Corporate Services to review the current financial position as reported by business partners. This is backed up by the budget monitoring updates to the Cabinet on a quarterly basis, where any unplanned changes in demand from their budget meetings with service managers are picked up and any appropriate revision to the budget is added in. Where there are significant changes occurring in the year which affect the MTFS assumptions, these will be built into the MTFS workings to assess the effect.

A Corporate risk register is in place and is reviewed on monthly by management and reported to the Overview and Scrutiny committee every 6 months. Service risk registers are also in place which detail the risks identified through the service delivery plans. These are reported via the service panels and ultimately to the Overview and Scrutiny committee along with Corporate risk register.

Reserves are also available to solve short-term issues.

Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has a risk management policy based on which it should provide regular updates to the Overview and Scrutiny Committee through a Corporate Risk Register. The Council's policy is based on the principles of Identifying, Evaluating, Mitigating and Review & Reporting. This stresses that risk management is an integral part of everyday management through Heads of Service and is appropriately considered as part of decision making. The policy sets out the roles and responsibilities of each function i.e. internal audit, elected members, relevant committees, leadership team and Heads of Service to identify the risks to their services every year. The report is collated by the Internal Audit Manager and presented to Overview and Scrutiny Committee and Audit Committee. In particular, the report highlights those risks where further actions are needed.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

An appropriate risk management policy is in place, and the work on internal audit supports the monitoring of controls.

As noted above, service risk registers are in place. The risks identified in the service risk registers feed through from the service plans. Risks are reported via the service panels. Service panels are reported to Overview and Scrutiny.

The Council maintains an Internal Audit (IA) service which undertakes the IA plan for the financial year. The internal audit service provides independent assurance on the effective operation of controls in accordance with the internal audit strategy and charter. A plan of work is set for the team each year and the progress on delivering the plan and the latest findings arising are reported to each meeting of the Audit Committee. The result of this work is used in the Annual Head of Internal Audit's Opinion report along with other sources of assurances on internal control available that year, to provide the Audit Committee an annual assurance opinion.

As well as the Internal Audit service, the Councils also has an anti-fraud and corruption policy that makes it the responsibility of each employee to be aware of the possibility that fraud, corruption and theft may exist in the workplace and be able to share their concerns with management, including how to report potential fraud or corruption.

The scope of the work carried out by internal audit includes testing the adequacy of controls to prevent or detect fraud or error. The reports include overall assurance opinions for each audit and highlight any weaknesses in controls designed to prevent and detect fraud and error. The Annual Head of Internal Audit's report also highlights any income or expenditure errors (including the value) which have been identified from audit testing. During the current year, the IA function was also requested to include the Covid-19 payments under their review to gain assurance over such payments and the process. The review concluded in reasonable assurance. This demonstrates that the Council responds to the risks identified.

The Section 151 Officer is also kept aware of any significant fraud investigations, particularly where internal fraud is suspected and is often the steering officer for these cases so is aware of what is being found in these cases. We also noted this through our regular meetings with the S151 officer.

Finally, we note that the overall Head of Internal Audit's opinion was 'Satisfactory'.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body approaches and carries out its annual budget setting process

This is a continuous process normally commencing in June before Full Council approval in the following February. Forms are distributed around August each year to individual Budget Holders, which contains

- Revenue
- Capital
- Fees and Charges

Budget holders are requested to make their Budget requests for the forthcoming year. Each form that is distributed specifically contains their respective Cost Centres and associated Account Codes.

Forms are distributed via email, along with associated instructions for completion including a deadline for return. Within the forms there are headings with regards for "Growth" and "Savings" along with an explanation requirement as to why this is necessary compared to the current year's budget

All revenue budgets are consolidated within their services and will then be part of a provisional Net Cost of Service, which will be subject to scrutiny and amendment. The Head of Corporate Service is responsible for overseeing the whole process and will regularly monitor the budget position from an overall perspective including the financing of the budget from central government grants, retained business rates and council tax funding.

Budget monitoring is completed monthly on Integra. The Finance Manager is responsible for coordinating the process and formulating the latest revenue and capital projected outturn.

VFM Commentary

Once all the information has been collated the business partner with delegated responsibility from the Head of Corporate Services pulls together the overall budget proposed and updates the 5-year projections. The budget set and the council tax implications are presented to the Cabinet and then for final approval by Full Council for the annual council tax setting decision.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Arrangements are in place to manage the budget, and bespoke training has been delivered during the year.

We note that within the Financial Regulation report of the Council there are processes and procedures to ensure that the Council has effective systems to exercise budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed. Initially an overspend is identified between the Budget Holder and their Business Partner.

Where an overspend occurs it may be possible to manage this by use of a Budget Virement following appropriate approvals.

Scheme of Delegation mitigates against overspending to date, in such that increasing levels of expenditure (Purchase Orders and Contracts) require approval from officers with higher levels of seniority.

Overspends are also highlighted to members in reports that go to Overview and Scrutiny and Cabinet during the year. Where Budgets are expected to vary and Forecast adjustments are subsequently made these are detailed in appendices for members to review.

The Head of Corporate Services reports to the Cabinet and Council quarterly as part of an overall performance management reporting process. The monitoring report includes the actual expenditure against the budget and explanations for any large deviations. This includes financial and performance reporting with areas identified that needs corrective action based on the overspending incurred during the year and how the Council can implement corrective action/savings to reduce the overspending.

Budget holders are also provided with on-going training to equip them with the necessary knowledge and skills to undertake this role. During 2021, Budget holders were provided with bespoke Budget Monitoring Training. The training was specifically written for Hart DC, using Hart's Chart of Accounts and processes.

Governance (continued)

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Constitution, including the Scheme of Delegation to Officers, sets out how different types of decisions are made, including who has the responsibility for making them and what procedures should be followed. Procedures include publishing committee report on the Council's website in advance of meetings.

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

The Monitoring Officer and Chief Finance Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means and are present at all the executive Committee meetings.

Any key decisions due to be made should be published 28 days prior, to enable wider transparency and opportunities for representation to the decision makers.

The Audit Committee's role is not to challenge the decisions of the Council/Cabinet, that is the role of the Overview and Scrutiny Committee. Their role is to review and receive relevant reports related to risk management, fraud, internal and external audit.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Decision making is guided by the principles and rules set out within the Constitution.

Governance (continued)

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Standards are maintained through Codes of Conduct.

In accordance with the Localism Act 2011 Hart DC has a Code of Conduct which sets out the behaviours expected from our members, and arrangements in place to deal with any matters identifies of ethics, honesty and member conduct. This includes a formal member complaint procedure which is overseen by the Monitoring Officer. New members receive an induction session on the Code including how to declare interests in advance of committee meetings.

The complaints received and actioned are included on the Council's 'Help & advice' page. A standards sub-committee is set up when a significant breach by a member requires investigation and the conclusion is reported at the next meeting of the Audit Committee and Full Council.

The Council's Code of Conduct and Disciplinary Rules and Procedure aim to maintain appropriate standards of conduct at work by employees. All new employees complete induction on the content of the Code. The revised policy includes section on gifts, hospitality and interests to meet the needs of the Bribery Act. The Council's Anti-Fraud and Corruption policy also deals with the policy on gifts, hospitality and bribery.

Improving economy, efficiency and effectiveness

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

The monthly budget monitoring process examines all income and expenditure against budgets. It highlights at an early stage where expenditure is being incurred but where insufficient or no budgetary provision exists.

This is reported to the Head of Corporate Services to take corrective action in the form of identifying savings or redistribute resources depending on the size of the overspend. This is further reported to the Council and Cabinet through quarterly budget monitoring reports as discussed above.

The Council has amended its budget based on its forecasting taking into account the impact of covid and also the grant funding that was provided during 20/21. Due to the overspend on budget in the current year, the Cabinet has agreed to review the local plan and MTFS to identify business cases of further savings and income generation to support the services of the Council.

At the end of the year any areas which were overspent are discussed in the Business Partners meeting and an action plan devised to work with the service to bring the spend under control.

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

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

The Council uses a range of mechanisms, both formal and informal, to evaluate its performance in delivering services, and for identifying and delivering service improvement opportunities.

It starts from the top, with a clear expectation that the services provided should be delivered in a way that puts the customer at the heart of the process. This is further evaluated through feedback options on various services that Hart DC provide through an online customer form. This can be done through several ways including by phone, email, going to the Council offices, via the website or social media.

The Council also assesses its performance through various sources discussed above including the review of the Corporate and Service Risk Registers, Budget monitoring reports etc.

Finally, the quarterly performance report assesses the Council's performance against KPIs identified in each service area. This is taken to the Overview and Scrutiny Committee as well as Cabinet.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

It uses financial and non financial information , with a clear expectation to put the 'customer' at the heart of processes.

Improving economy, efficiency and effectiveness (continued)

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council maintains a corporate list of its significant partnerships. These are assessed for their significance in terms of the results they seek to deliver, their profile/reputation and resources involved.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Partnerships are identified and monitored, with corrective action taken when required.

The joint waste contract management arrangements have passed to Basingstoke & Deane BC after the 2020/21 year.

The Council has a joint waste contract with Basingstoke and Deane Borough Council (BDBC). During 20/21 Hart DC was the lead i.e. all invoices from Serco were paid by Hart and then charged to BDBC for their share of the costs. We note that the Council engaged an independent reviewer, RSM, to evaluate the impact of the difference noted in the general ledger in relation to the waste contract. Assurance was gained that the Council had materially correctly invoiced the balances to BDBC, however, errors were identified within the ledger resulting in a prior period adjustment to the accounts.

The other main area of significant partnerships is the 5 Councils contract however the scope of services under the contract were reduced at the beginning of FY 20/21. This was due to timely monitoring and assessment of KPIs and a further cost v benefit analysis. In conclusion, it was agreed that the HR and payroll function would be brought back in-house, and finance function will be delivered by Mendip DC which was also part of the 5Cs contract. Further, the exchequer service which remained with Capita during FY 20/21 was brought back under HDC from 1/04/2021.

The two examples above show that the Council take action where necessary and monitors the performance of the Council. The information is also taken to the relevant Council meetings to engage stakeholders at the appropriate time.

We also note that as part of our review of the objection to the financial statements in the waste contract matter, we raised the following recommendations under Section 27(6) of the Local Audit and Accountability Act 2014, that regarding access to the general ledger and who can process journals, the Council should:

1. Review access to the general ledger to ensure any individual with access to post journals is appropriately trained and has the relevant experience to do so;
2. Review user authorisation limits to facilitate appropriate review and authorisation of journals posted to the general ledger.

Improving economy, efficiency and effectiveness (continued)

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Procurement guidance is in place, supported by training to the management team.

Contract Standing orders are in place to achieve efficiencies which were revised and approved by Cabinet in November 2020. The Contract Register is also in place and published on the Council's website to support transparency.

Procurement procedures are in place and are available to officers via SharePoint. These procedures include a step-by-step guide to 'Buying Something'. There has also been a recent 'toolkit' training for management team. This toolkit covered procurement – rules and regulations- quotes, who to ask and when to tender and the exemption process to ensure compliance with laws and regulations.

The Council had outsourced its procurement function to Capita under the 5 Councils contract. In common with the Council's approach to Payroll and Accountancy, the intention is to bring the service back in house, in order to fully assess the condition of the service and assess the appropriate route for future provision from 1/04/2021. A joint decision was made across the 5Cs to insource procurement. The Council had limited use of the contract due to limited procurement activities as the majority of the services are outsourced or shared with other Councils. There were no penalty costs of exiting this element of the service.

A growth bid is being prepared for 2022-23 budget to procure procurement portal software to manage large procurements in the future.

VFM Commentary

The Council has agreed a recommendation as a result of the objection to the accounts which we will follow up as part of our 2021/22 VFM arrangements work.

Recommendations

As a result of the VFM procedures we have not made any recommendations. However, through our work on the objection to the accounts, we have made the following non-statutory recommendation:

- Regarding access to the general ledger and who can process journals, the Council should
 - Review access to the general ledger to ensure any individual with access to post journals is appropriately trained and has the relevant experience to do so; and
 - Review user authorisation limits to facilitate appropriate review and authorisation of journals posted to the general ledger.

The Council faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

Forward look

Looking forward to 2021 and beyond, like many local authorities the Council continues to face financial pressures over the medium term, which we would expect to see continually updated and reflected within the Medium Term Financial Plan.

A blurred background image of a business meeting. Several people in professional attire are gathered around a wooden conference table. A woman with blonde hair is in the foreground, looking intently at a document on the table. Other people's hands and arms are visible, some resting on the table. The scene is brightly lit, suggesting an indoor office environment with large windows.

Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

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

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

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the Council to complete this work as required.

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 received an objection to the Council's accounts for the year ended 31 March 2021.

The objection asked that we issue a public interest report in relation to the financial controls and the budget and reporting processes.

The supporting information to the objection covered a number of concerns, which were:

1. Unexpected £1.1m on the Waste Contract;
2. Changing the budget and reporting basis;
3. Budget not internally consistent;
4. Big swings between budget heads;
5. Big changes to the Medium Term Financial Plan (MTFP); and
6. Weak controls in an example service area – HASETT – New Settlement

In considering the objection we carried out the following work:

- Requested a formal response from the Council regarding the issues accepted for the objection;
- Considered the Council's formal response and associated evidence;
- Requested further supplementary information from the Council to clarify a number of issues and further questions; and
- Provided to the objector the material information obtained in the course of our work, requesting any other facts they believed were relevant to deciding the objection.
- Reviewed and considered the objector's response to the material information for factual information, and relevance to the year under audit.

Other Reporting Issues

We decided that we would not issue a public interest report in relation to the financial controls and the budget and reporting processes.

Further information on the objection and our conclusion in relation to each of the 6 concerns raised is included within our Audit Results Report, published on the Council's Audit Committee agenda papers of 22 March 2022.

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

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.

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 approach and have therefore not tested the operation of controls.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
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.	Reversal of £391k debtor in the financial statements.
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.	A delay in posting to the general ledger could lead to income/expenditure not being appropriately recognised in the correct year. 1) As the amount of the two invoices in this point was not material a back-posting to prior period ledger was not considered necessary.
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.	2) The difference highlighted in this point has an impact of £950k on the I&E. This is in addition to the impact of the previous control observation of £391k. As this moved the surplus in 2019/20 to a deficit position, the impact was considered material and led to a prior period adjustment in the accounts.
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.	Therefore, for best practice, we would encourage the finance team to post entries to the GL following appropriate level of review and approvals in a timely manner.

Appendix A

Audit Fees



Audit Fees

Our fee for 2020/21 is in line with the audit fee reported in our Annual Results Report presented to the Audit Committee on 22 March 2022.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Audit Scale Fee – Code work	41,469	41,469	41,469
Proposed scale fee rebasing (Note 1)	30,625	Note 1	
Scale fee variation – e.g. prior year adjustment, property valuation errors, Covid-19 grants errors (Note 2)	13,212	Note 2	31,181
Impact of the New Code of Audit Practice, and revised ISA540 (Note 3)	9,948	Note 3	n/a
Objection to the accounts	5,325	-	n/a
Total Code audit fee	100,579	65,969	72,650
Non-audit services (Housing Benefits)	11,758	11,758	14,258
Total fees	112,337	77,727	86,908

Notes:

1. In our prior year Annual Audit Letter we set out our rationale for a rebasing the audit fee to address changes in professional and regulatory requirements, and the associated impact on audit procedures. PSAA determined the scale fee for 2019/20, but have not indicated whether this was recurrent. Therefore, as these issues have not changed, we repeat our submission for a rebasing of the scale fee for 2020/21. The inputs are unchanged, but the value increases by 25% as PSAA fee variation rates have increased by that amount.
2. A scale fee variation is proposed for specific issues relating to the 2020/21 audit, including prior year adjustments, differences and errors in relation to property valuations, errors in Covid-19 grants accounting. The variation for 2020/21 will be completed, discussed with management and submitted to PSAA at the completion of the audit.
3. 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 have calculated the impact for Hat DC to be at the lower end of PSAA's ranges.

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