

Hart District Council

## Audit results report

Year ended 31 March 2019

November 2019

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the page.

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18 November 2019



Dear Audit Committee Members

We are pleased to attach our audit results report for the meeting of the Audit Committee on 3 December 2019. This report summarises our preliminary audit conclusion in relation to the audit of Hart District Council for 2018/19.

We are in the process of completing our audit of Hart District Council for the year ended 31 March 2019.

The audit has been challenging this year, and the Council was required to publish its accounts by its deadline of 31<sup>st</sup> July 2019 with a statement on its website explaining why our audit was not concluded at that point.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources. The Council will then be able to re-publish its accounts with an audit report.

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

We would like to thank your staff for their help during the engagement. We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 3 December 2019.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



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

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

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

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



**01**

## Executive Summary

## Executive Summary

### Scope update

In our audit planning report tabled at the 28 March 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- **Changes in materiality.** We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £867k (*Audit Planning Report — £940k*).
- This results in updated performance materiality, at 75% of overall materiality, of £651k (*Audit Planning Report - £705k*), and an updated threshold for reporting misstatements of £43k (*Audit Planning Report - £47k*).
- The basis of our assessment has remained consistent at 2% of gross expenditure on provision of services.

### Status of the audit

- We are in the process of completing our audit of Hart District Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our audit planning report. However, the audit has taken longer than planned. Although the Council produced, and published, its financial statements on 31<sup>st</sup> May statutory deadline, these statements were at a standard lower than we would expect as the statements contained material errors. There was a lack of quality control as the financial statements had not been reviewed by senior management at Capita, nor were officers at Hart given sufficient time to review the financial statements before they were published on 31 May 2019.
- Our first review of the Council's financial statements found that the Cashflow Statement, showing £2.854 million of Cash and Cash Equivalents, was inconsistent with the £24.8 million of Cash and Cash Equivalents in the Balance Sheet. There were also a number of other significant elements in the financial statements which were incorrect, which also included unclear PPE Valuation reporting, internal inconsistencies in the values of capital investments and a non-compliant IFRS9 disclosure.
- Hart District Council learnt from the early audit findings of its 5 Councils partners, in June, and requested a that second set of financial statements was produced for disclosure on its website on 31 July 2019. We have yet to confirm whether this second set of financial statements was reviewed by senior management.
- We commenced our audit on 7 October. No working papers had been provided on the first day of the revised audit, despite the principle aim of the delay to the audit being to give time to correct the material errors in the financial statements and provide a complete set of quality supporting working papers as requested.
- At the time of writing the outstanding matters are:
  - System walkthroughs – evidence outstanding on a number of key financial systems;
  - PPE valuation – input data provided to the valuers on land areas;
  - Revised financial instrument disclosure notes
  - Debtor query, where income appears to be received before year-end

## Executive Summary

- Payroll – starter and leavers testing sample;
  - Review of the final version of the financial statements;
  - Receipt of the signed management representation letter;
  - Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.
- Subject to satisfactory completion of those matters and an agreement on the issues raised in this report, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.
  - We expect to issue the audit certificate at the same time as the audit opinion.

### Audit differences

#### **Original financial statements**

- As discussed above, there were a number of significant elements in the financial statements which were incorrect, which included an inaccurate Cashflow statement, unclear PPE Valuation reporting, internal inconsistencies in the values of capital investments and a non-compliant IFRS9 disclosure.

#### **Revised financial statements**

- The statements were improved. The significant amendments identified were:
  - correction of PPE valuation disclosure note 5.01.1; and
  - correction of disclosures for financial instruments, to implement the new requirements under IFRS9 and to correct errors in debtors and creditors incorrectly classified as financial instruments when they do not meet the classification.

At the time of writing we have one remaining uncorrected misstatement, resulting from the IAS19 pension liability calculations not including an estimation for the impact of Guaranteed Minimum Pension (GMP) which in our view can be estimated. We estimate the balance to be £45k, which is over our agreed reporting threshold.

However, until the final resolution of all matters listed above, further audit differences may arise.



## Executive Summary

### Areas of audit focus

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

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

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

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

### Control observations

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

### Independence

Please refer to Section 9 for our update on Independence. We have no significant independence matters to draw to your attention.

## Executive Summary

### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk around our Value for Money Conclusion:

- Implementation of the revised arrangements for the 5 Councils' contract.

Our detailed findings can be found in Section 5. In summary we found that the Council has 'proper arrangements' in place to secure economy, efficiency and effectiveness on its use of resources. The key headline messages are:

#### **Implementation of the 5C's contract**

Whilst there are issues with the 5C's contract, we found that the Council adequately managed the risks around this during 2018/19. We have the following key findings to report regarding our review of the 5 Councils contract:

- Key Performance Indicators (KPIs) are established for each service. Work took place to review the KPIs within the contract parameters, for introduction in April 2019. However, the effectiveness of these KPIs for the period reviewed are undermined by the fact that many of the services are tracking below the Target Operating Model ("TOM").
- The processes implemented in updated governance arrangements, including the revised IAA, will take time to implement, but in this regard we have found that the arrangements in place are satisfactory and offer a solid basis upon which to implement the revised agreement and its delivery.
- In our judgement the joint procurement of services is not always financially beneficial for the Councils due to the associated costs and complexities of liaising with five Councils over one contract; in fact, our work has found that it is becoming increasingly likely that the contract will struggle to break-even over its lifetime, and could even incur some degree of cost. However, the Council's recognition of this fact demonstrates that Hart District Council, and indeed the other four Councils, are willing to review and refresh arrangements in the pursuit of the achievement of value for money.

### Other reporting issues

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

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. As the Councils are below the NAO thresholds, this consists simply of a return to the NAO.

We have no other matters to report.





## Executive Summary

### Audit Fees

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that have opted into its national auditor appointment scheme. The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies. For the Council our planned fee was set at the scale fee level and was based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

These assumptions have not been met in all instances and the issues encountered, along with the poor quality of the draft financial statements, are reflected throughout this report. We are proposing an increase in audit fees above the scale fee and set out in our initial plan. This arises from:

1. The increase in work associated with the risks identified for our value for money conclusion; and
2. The delays and poor quality of the financial statements.

Fees will be subject to final approval by PSAA Ltd.



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## Areas of Audit Focus

## Significant risk

### **Risk of fraud in revenue recognition – Capitalisation of revenue expenditure**

#### What is the risk?

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

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.

#### What judgements are we focused on?

We focused on the following:

- For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support these additions and expenditure. We reviewed the sample selected against the definition of capital expenditure in IAS 16; and
- Whether management were inappropriately processing journals that transferred amounts from revenue to capital.

#### What did we do?

- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes; and
- Amended our sample sizes when testing PPE additions to reflect the existence of this risk. Agreed samples to source documentation to ensure the classification was reasonable

#### What are our conclusions?

We have not identified any issues with the classification of capital expenditure.

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

Overall our audit work did not identify any material issues.



# Significant risk

## Misstatements due to fraud or error

### What is the risk?

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. The manipulation of capitalising expenditure could occur through management override of controls.

### What judgements are we focused on?

We focused on the following:

- Understanding the risks of fraud and the controls put in place to address those risks by management and how the Governance, Audit and Finance Board oversees management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.

### What did we do?

- Wrote to the s151 officer, Chair of the Audit Committee and the Head of Internal Audit in this regard and reviewed their responses;
- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias; and
- Evaluated the business rationale for any significant unusual transactions.

### What are our conclusions?

From our work completed to date:

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.



## Areas of Audit Focus

### Pension Net Liability Valuation

#### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Hampshire County Council Local Government Pension Scheme. The Council's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £24.773 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Hampshire County Council Local Government Pension Scheme. Accounting for this scheme involves significant estimation and judgement and therefore management engages the actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What judgements are we focused on?

The significance of the liability to the Council's balance sheet, as well as the difficulty in valuing some of the pension fund assets caused by their nature and size. Small changes in assumptions when valuing the pension net liability valuation can have a material impact on the financial statements.

#### What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures. We:

- liaised with the auditors of the Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hart District Council.
- assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

#### What are our conclusions?

We are satisfied that the Council has correctly reflected the IAS 19 entries provided by their actuaries in the financial statements. We are also satisfied that the actuaries are appropriately qualified and the reasonableness of their assumptions.

We have liaised with the auditors of Hampshire County Council, and received the required information.

This year, there has also been an ongoing national issue which has meant that a late change is required to the Council's pension net liability. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling".

The final version of the financial statements now includes the increased past service cost of £470k, which increases the liability by the same amount. Disclosures amendments were made to clarify how this ruling was included in the accounts.

However, we note that the impact of Guaranteed Minimum Pensions was not included by the actuary, which results in an uncorrected understatement of £45k



## Areas of Audit Focus

### Valuation of property, plant and equipment

#### What is the risk?

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

We also consider the assets not revalued in year to assess the likelihood of material misstatement within the population. The Code of Practice on Local Council Accounting states that where assets are revalued, revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that using the current value at the end of the reporting period. Each class of asset should normally be valued at least every five years, subject to this requirement.

#### What judgements are we focused on?

Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2018/19 and of the key assumptions input into these valuations.

#### What did we do?

We took a substantive approach to respond to this risk, undertaking the procedures set out below. 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;
- Challenged the assumptions used by the Council's valuers by reference to external evidence;
- 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;
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated;
- Sample tested key asset information used by the valuers in performing their valuation;
- Tested accounting entries have been correctly processed in the financial statements.

#### What are our conclusions?

We assessed and found no issues with the valuer's qualifications, objectivity and independence to carry out such valuations. No issues were raised with regard to their key assumptions.

Accounting entries were correctly processed within the financial statements.

We verified that all PPE requiring valuations have been valued within the 5 year cycle.

We assessed the potential misstatement of assets not valued as at 31/3/2019. The significant proportion of assets were valued in 2018/19, £34.4m of the total NBV of Other Land & Building value at £36.8m. We performed procedures for the remaining assets, giving assurance that there would be no material change to their valuations.

However, the disclosures on the valuation cycle were required to be amended due to misinterpretation of the disclosure requirements which showed the annual movements, rather than the valuation by financial year over the Council's 5 year rolling programme

Some audit evidence to support the accuracy of information provided to the valuers remains outstanding. We will update the committee should any errors arise.

## Other areas of audit focus

### NDR Appeals Valuation

#### What is the risk?

The Non Domestic Rates Appeals Provision requires a number of assumptions and judgements.

#### What judgements are we focused on?

We focused on the following:

- The reasonableness of the assumptions to appeals made to the 2005 and 2010 ratings lists;
- The reasonableness of the assumptions made to any appeals lodged against the 2017 ratings list, and the Council's assumptions for appeals as yet unlodged.

#### What did we do?

- Reviewed the calculation of the provision for accuracy;
- Ensured calculation of the provision included consideration of unlodged appeals;
- Considered the relevance and reasonableness of assumptions, methods and models used by the management specialist; and
- Performed post year-end review of appeals settled to determine whether the revised rateable value and effective date of the appeal are in line with the provision.

#### What are our conclusions?

We have reviewed the calculation of the provision and confirmed that the calculation was accurate.

We have confirmed that the provision considered unlodged appeals.

We reviewed the assumptions, methods and models used by management.

We have no issues to report.

## Other financial statement risk

### New accounting standards – IFRS 9 Financial Instruments

#### What is the risk?

This new accounting standard is applicable for local Council accounts from the 2018/19 financial year and changed how financial instruments are classified and measured, how the impairment of financial assets are calculated, and amend the disclosure requirements.

#### What did we do?

- Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered the classification and valuation of financial instrument assets;
- Reviewed the new expected credit loss model impairment calculations for assets; and
- Checked additional disclosure requirements

#### What are our conclusions?

- The Council's draft financial statements did not display sufficient and appropriate knowledge of the new accounting standard. Preparations, which could have been undertaken significantly earlier in the year, were not adequate to meet the 31 May deadline with material accuracy even though the Council lacks any complex financial instruments.
- The required disclosures for the transition from IAS39 to IFRS9 were not present within the accounts, and the terminology had not been properly updated to reflect new classifications.
- Our testing identified that these issues had not been properly addressed in the second version of the accounts.
- We also identified that the debtors and creditor values in the financial instrument disclosures were incorrect, as they contained items that did not meet the definition of financial instruments.





# Other financial statement risk

### New accounting standards – IFRS 15 – Revenue from contracts with customers

#### What is the risk?

This new accounting standard is applicable for local Council accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

Where the standard is relevant, the recognition of revenue will change and new disclosure requirements introduced

#### What did we do?

- Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.
- Considered application to the authority's revenue streams, and where the standard was relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Checked additional disclosure requirements.

#### What are our conclusions?

- We have reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues;
- For relevant revenue streams we confirmed that revenue was recognised in line with the requirements of IFRS 15; and
- Additional disclosure requirements were in line with the requirements of IFRS 15.



# Other financial statement risk

### Treatment of Calthorpe School Sports Hall

#### What is the risk?

The sports hall is being created solely for reason of being handed over to HCC, therefore, HDC correctly treated the contract as a revenue contract in the 17/18 accounts.

HDC's capital commitment to the part-funding of Calthorpe School Sports Hall was £1.85 million and continues to be met through S106 education monies. At 31 March 2018, the remaining £1.255 million of Section 106 monies for the project were held within HDC's Corporate Services Earmarked reserves.

#### What did we do?

- Review whether the £1.255 million of Section 106 monies, set aside in HDC's Corporate Services Earmarked reserves, were used to pay for the Calthorpe Sports Hall commitment in 2018/19.
- review the disclosure in the 2018/19 accounts.

#### What are our conclusions?

- We have reviewed the draw-down of the earmarked reserve created for the Hall.
- We assessed no further disclosure were necessary.



## 03 Audit Report



## Draft audit report

### Our opinion on the financial statements

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

##### Opinion

We have audited the financial statements of Hart District Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- related notes 3.01 to 7.07
- Collection Fund, and 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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hart District Council as at 31 March 2019 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 2018/19.

##### Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

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

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

##### Other information

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

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



# Audit Report

## Our opinion on the financial statements

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Hart District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

#### **Matters on which we report by exception**

We report to you if:

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

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

We have nothing to report in these respects

### **Responsibility of the Head of Corporate Services**

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

In preparing the financial statements, the Head of Corporate Services 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 Council either intends to cease operations, or have no realistic alternative but to do so.

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

### **Auditor's responsibilities for the audit of the financial statements**

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



# Audit Report

## Our opinion on the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Hart District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Hart District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper

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

### **Certificate**

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

### **Use of our report**

This report is made solely to the members of Hart District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Hart District Council and Hart District 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*  
*Xx December 2019*

The maintenance and integrity of the Hart District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



**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

### Original financial statements, dated 31 May 2019.

We commenced our audit on 3 June and found, on the first morning of the audit, that the Cashflow Statement, showing £2.84 million of Cash and Cash Equivalents, was materially inconsistent with the £24.8 million of Cash and Cash Equivalents in the Balance Sheet. There were also a number of other significant elements in the financial statements which were incorrect, which included the Senior Officers’ Remuneration note, PPE Valuation reporting, and a non-compliant IFRS9 disclosures.

### Revised financial statements

To date there are the following adjusted misstatements in the revised financial statements; however as we have yet to complete our work, there may be more unadjusted and adjusted differences.

### Corrected differences

- Balance Sheet Disclosures: PPE valuation disclosure note 5.01.1 was amended to reflect the values of assets valued within the disclosed years, rather than the movements between years,
- Balance Sheet Disclosures: Financial Instruments disclosure note 5.04 was amended to properly reflect updated terminology and disclosure requirements for the adoption of IFRS9. It also corrected identified errors where the debtor and creditor balances contained items that did not meet the definition of financial instruments.

### Uncorrected differences

At the time of writing, there is one judgemental uncorrected variance. As discussed on page 13 we identified that the impact of Guaranteed Minimum Pensions was not included by the actuary in their IAS19 calculation, which results in an uncorrected understatement of the value of £45k, based on 0.2% of the net liability.

However, until the final resolution of all matters, further audit differences may arise.



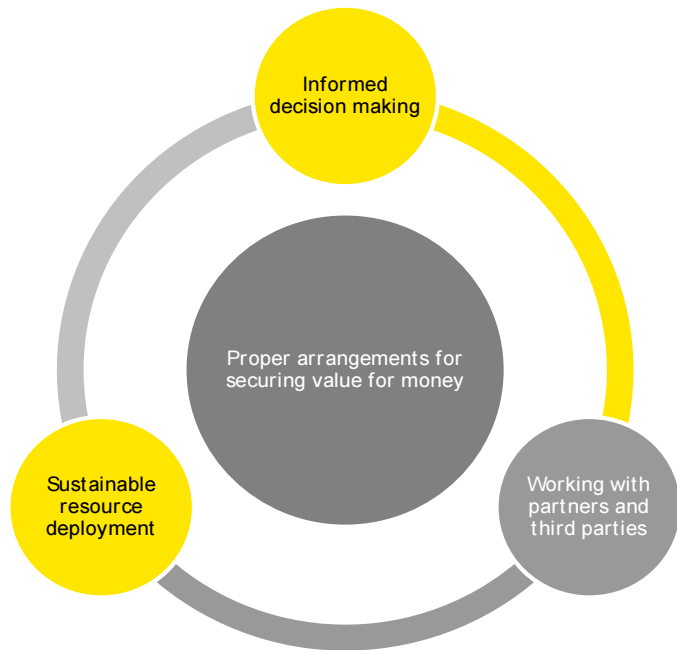


**05**

## Value for Money Risks



# Value for Money



## Background

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

For 2018/19 this is based on the overall evaluation criterion:

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

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

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

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

## Overall conclusion

In our Audit Planning Report we identified the following significant risk around our Value for Money Conclusion:

- Implementation of the revised arrangements for .

Our detailed findings can be found overleaf. In summary we found that the Council has 'proper arrangements' in place to secure economy, efficiency and effectiveness on its use of resources despite the continuing risks and challenges in delivering the Council's Medium Term Financial Plan and its Commercialisation and Digital Strategy

Whilst there are issues with the 5 C's contract, we found that the Council adequately managed the risks around this during 2018/19.



# Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<b>Implementation of the revised arrangements for the 5 Councils' contract</b>		
<p>In April 2016, Hart District Council (the Council) entered into two contracts for the provision of corporate services, in partnership with Mendip District Council, South Oxfordshire District Council, Vale of the White Horse District Council and Havant Borough Council (known as "Five Councils"). The services split into two lots; data-based services (Lot 1) and property based services (Lot 2).</p> <p>These contracts were designed to generate savings of over £50 million for the five Councils across their lifetime of nine years but the Councils have had to renegotiate Lot 1 and pull out of Lot 2 due to the issues with the way the contracts were constructed and the implications for the practical implementation of them.</p> <p>A new Inter-Authority Agreement is being negotiated which outlines the revised governance and cost sharing arrangements between the Councils. In addition, there have been a number of issues noted during implementation of the services across the Five Councils. This has led to remedial action being taken including:</p> <ul style="list-style-type: none"> <li>• appointing a remedial adviser to review the service provision in some areas, for example, IT, and recommend actions to remedy the causes of failure;</li> <li>• bringing many of the joint client team, who were responsible for monitoring the contractor's performance, back in house; and</li> <li>• implementing additional management checks, for example, on payroll runs.</li> </ul> <p>Given the likely changes to the IAA there is a risk that both the services and financial performance of the Council would be negatively impacted if renegotiation results in arrangements that are difficult to implement or do not deliver the intended benefits.</p>	<p>Deploy resources in a sustainable manner</p> <p>Partnership working</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• understand the revised Five Councils' Partnership Inter-Authority Agreement and the financial impact on Hart District Council;</li> <li>• review the arrangements in place to monitor the implementation of the contract, in terms of whether <ul style="list-style-type: none"> <li>• expected savings are being realised; and</li> <li>• good operational performance exists.</li> </ul> </li> <li>• review of the governance arrangements in place by the Council to ensure that in all significant respects, the council has proper arrangements to achieve sustainable outcomes.</li> </ul>



# Value for Money Findings

### Audit findings - Implementation of the revised arrangements for the 5 Councils' contract

Hart District Council, along with its partners, have subscribed to the revised IAA, which was signed in January 2019. The revised IAA aims to support wider collaboration between the Councils according to the agreed Mutual Aims, including delivering improved value for money. The Vinci element of the original contract is terminated, and the IAA facilitates changes to the contract governance and cost sharing mechanisms. The financial mechanism now better promotes each Council paying for its own services, increasing transparency, and removing cross subsidy. The IAA also clarifies how changes can be made to the contract, clarifying the mechanisms and responsibilities for incurred costs if and where changes are sought by any of the members. There are provisions for exclusions for conflicts of interest in decision making, and a dispute resolution mechanism.

All five Councils are fully represented in the revised document, allowing for a balanced approach to decision making. A revised governance mechanism has been created to manage the arrangements arising out of the IAA. Governance bodies are now formed of a Joint Committee, a Strategic Board, an Operational Management Board, and a Service Improvement Group. Each has a defined role and membership, and the relations between each including decision making delegations, is established.

Looking at the operational arrangements, Key Performance Indicators (KPIs) are established for each service. Work also took place to review the KPIs within the contract parameters, for introduction in April 2019. However, the effectiveness of these KPIs for the period reviewed are undermined by the fact that many of the services are tracking below the Target Operating Model ("TOM"). As acknowledged by the Councils, and previously reported, it is significantly doubtful whether the contract has delivered the aspirational savings. We also remain unclear what detailed financial monitoring is taking place to measure actual savings against the aspirational targets alluded to in the original contracts. Operationally, it is not clear the degree to which the revised governance arrangements are having an impact on the performance of the contract in the year as these have not yet had sufficient time by 31 March to clearly demonstrate their impact. The effectiveness of Financial penalties is also unclear.

The processes will take time to implement, but in this regard we have found that the arrangements in place are satisfactory and offer a solid basis upon which to implement the revised agreement and its delivery.

In our judgement the joint procurement of services is not always financially beneficial for the Councils due to the associated costs and complexities of liaising with five Councils over one contract; in fact, our work has found that it is becoming increasingly likely that the contract will struggle to break-even over its lifetime, and could even incur some degree of cost. However, the Councils' recognition of this demonstrates that Hart, and indeed the other four Councils, are willing to review and refresh arrangements in the pursuit of the achievement of value for money.

Therefore, on balance we have concluded that the Councils are taking the appropriate actions to improve the contract, and therefore have arrangements in place to do so during 2018/19, starting from the baseline at the beginning of the year.

Looking forward we raise two points for which we would expect to see ongoing focus.

- Firstly, that any decisions made are not rushed to an inappropriate timescale, are made transparently and as openly as a commercial decision can be made under each Councils constitution, are in accordance with the terms of the contract, and are based on reliable performance or financial information.
- Secondly, with strengthened arrangements in place under the revised IAA, it is important that the Councils continue to monitor and manage performance over a longer period to determine whether value for money is being achieved through the partnership, and be ready to respond with remedial action if this is not the case.



**06**

## Other reporting issues

## Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 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 2018/19 and published with the financial statements was consistent with the audited financial statements.

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

### Whole of Government Accounts

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

The Council falls below the threshold for detailed audit procedures.

### 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 Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. To date we have not identified any issues.

## Other reporting issues

### Other matters

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

#### **Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures:**

- **Incorrect IFRS 9 disclosures:** The Council's draft financial statements did not display sufficient and appropriate knowledge of the new accounting standard. Preparations, which could have been undertaken significantly earlier in the year, were not adequate to meet the 31 May deadline with material accuracy even though the Council lacks any complex financial instruments. The required disclosures for the transition from IAS39 to IFRS9 were not present within the accounts, and the terminology had not been properly updated to reflect new classifications.

#### **Any significant difficulties encountered during the audit:**

- **Poor quality financial statements:** The financial statements published on the Council's website on 31 May 2019, for the public to review were significantly below the standard we expected.
- We commenced our audit in June and found that the Cashflow Statement, showing £2.854 million of Cash and Cash Equivalents, was inconsistent with the £24.8 million of Cash and Cash Equivalents in the Balance Sheet. This error resulted in a number of audit adjustments in June as officers corrected the Cashflow Statement
- There were also a number of other significant elements in the financial statements which were incorrect. These were
  - unclear PPE Valuation reporting,
  - internal inconsistencies in the values of capital financing; and
  - non-compliant IFRS9 disclosures.
- **No senior review of the accounts before the audit.** The accounts production did not allow sufficient time for the Council's S151 Officer to review these prior to publication, which we expect would have identified a number of the issues present in the draft financial statements. No review was carried out by Capita management. Quality control was left to the local team who experienced resourcing issues during the accounts production process.
- **Delays in receiving evidence:** There were a number of delays to key audit evidence being obtained. These were both at the interim and final stage, and in particular information that we required for our "walkthroughs" of the Council's key financial systems. Some information has been outstanding for a number of those systems since March 2019. When we recommenced the audit in October 2019, no working papers had been provided despite deferring the audit to allow the Council time to correct the errors within its accounts and provide the supporting working papers.



**07**

## Assessment of Control Environment





# Assessment of Control Environment

## Assessment of controls

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

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

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



**08**

## Data Analytics



## ► Data analytics

### Analytics Driven Audit

#### Data analytics

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

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

In 2018/19, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

#### Journal Entry Analysis

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

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



**09**

**Independence**

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated 9 January 2019.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Committee on 3 December 2019.

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your council, its directors, senior management and its affiliates. This includes all services provided by us and our network to your council, its directors 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 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 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The page overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included below.

We confirm that none of the services listed overleaf have been provided on a contingent fee basis.

As at the date of this report, future non-audit services are limited to the reasonable assurance engagement for the housing subsidy grant claim. There are no other future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Audit Fee – Code work	41,469	41,469	41,469	697,884
Additional fees: VFM significant risk	2,734	0	0	1,906
Additional fees: Financial Statements audit	<b>TBC</b>	0	0	0
<b>Total Code fees</b>	<b>TBC</b>	<b>41,469</b>	<b>41,469</b>	<b>69,790</b>
Non-audit services – Housing Benefit Subsidy Claim Certification	TBC	11,738	n/a	12,804
<b>Total fees</b>	<b>TBC</b>	<b>52,207</b>	<b>41,469</b>	<b>82,954</b>

### Note on additional fees:

(1) VFM Significant risks:

Due to the Council's participation in the 5 C's partnership, we carried out value for money conclusion procedures that are not taken into account in the PSAA's scale fee.

(1) Financial Statements audit:

The Council's financial statements audit has involved more work, in terms of the planned number of hours. We have reviewed two sets of financial statements and the subsequent output in terms of two trial balances. This is more work than we planned to do when we presented our Audit Plan in March 2019. We have made reference to these errors throughout this report. Delays in the production of working papers and information requests have also contributed to the overrun.

These additional fees have been discussed with the Head of Corporate Services and are subject to final approval by the PSAA.






**10**

**Appendices**






# Required communications with the Audit Committee





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

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





# Appendix A

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

## Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	No issues to 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"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report</p> <p>Audit results report</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	All confirmations requested have been received
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

## Appendix A

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report
Written representations we request from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we request from management and/or those charged with governance</li> </ul>	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"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	No issues to report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Planning Report Audit Results Report

# Management representation letter

## Management Rep Letter

Ernst & Young  
Wessex House,  
19 Threefield Lane,  
Southampton.  
SO14 3QB

Dear Kevin

This letter of representations is provided in connection with your audit of the financial statements of Hart District Council ("the Council") for the year ended 31<sup>st</sup> March 2019. 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<sup>st</sup> March 2019 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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

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

### **A. Financial Statements and Financial Records**

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19

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 2018/19 and are free of material misstatements, including omissions. We have approved the financial statements.

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

As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.

We believe that the effects of any unadjusted audit differences, of £45,540 for GMP not included by the actuary, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because *[management to specify reason for not correcting misstatement]*

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

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.

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

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

# Management representation letter

## Management Rep Letter

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

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

### **C. Information Provided and Completeness of Information and Transactions**

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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

We have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 3 December 2019.

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.

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

We have disclosed to you, and the Council have 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.

### **D. Liabilities and Contingencies**

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

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

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

# Management representation letter

## Management Rep Letter

### **E. Subsequent Events**

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

### **F. Other information**

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report, the Statement of Accountable Officers Responsibilities and the Annual Governance Statement for 2018/19.

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

### **G. Ownership of Assets**

Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

### **H. Reserves**

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

### **I. Use of the Work of a Specialist**

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

### **J. Property, Plant and Equipment and Pension Estimates**

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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

We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, other than already disclosed.

### **K. Retirement benefits**

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

Yours faithfully,

\_\_\_\_\_  
Andrew Vallance – Head of Corporate Services

\_\_\_\_\_  
Chris Axam - Chair of the Audit Committee



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