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## Hart District Council

Annual Audit Letter for the year  
ended 31 March 2019

January 2020

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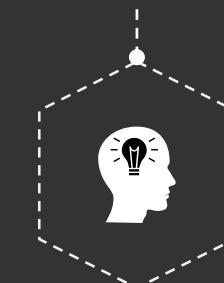
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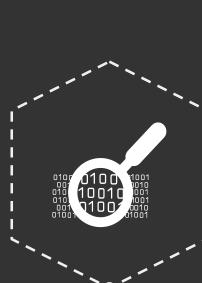
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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. 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.

A blurred background image showing a person's hands interacting with a tablet computer. The tablet screen displays some text and numbers, including '25'. The hands are positioned as if the person is typing or swiping on the device.

## 01 Executive Summary



# Executive Summary

We are required to issue an annual audit letter to Hart District Council (the Council) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

| Area of Work   | Conclusion   |
|--|--|
| <b>Opinion on the Council's:</b><br>► Financial statements   | Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended. |
| ► Consistency of other information published with the financial statements                         | Other information published with the financial statements was consistent with the Annual Accounts.   |
| <b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b> | We concluded that you have put in place proper arrangements to secure value for money in your use of resources.  |

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



## Executive Summary (cont'd)

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| Area of Work   | Conclusion                   |
|--|------------------------------|
| Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA). | We had no matters to report. |

As a result of the above we have also:

| Area of Work  | Conclusion  |
|---|---|
| Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.  | Our Audit Results Report was issued on 18 November 2020 and reviewed by the Audit Committee on 3 December 2019. |
| Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice. | Our certificate was issued on 19 December 2019.   |

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

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



02

## Purpose and Responsibilities



# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 25 January 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2018/19 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

## Responsibilities of the Council

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

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



03

## Financial Statement Audit



# Financial Statement Audit

## Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 19 December 2019.

Our detailed findings were reported to the 3 December Audit Committee.

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

| Significant Risk  | Conclusion   |
|---|--|
| <p><b>Misstatements due to fraud or error</b></p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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.</p> | <p>We:</p> <ul style="list-style-type: none"><li>▶ Wrote to the s151 officer, Chair of the Audit Committee and the Head of Internal Audit in this regard and reviewed their responses;</li><li>▶ Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;</li><li>▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;</li><li>▶ Reviewed accounting estimates for evidence of management bias; and</li><li>▶ Evaluated the business rationale for any significant unusual transactions.</li></ul> <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p> |



## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

| Significant Risk  | Conclusion   |
|---|--|
| <p><b>Risk of fraud in revenue and expenditure recognition - Capitalisation of revenue expenditure</b></p> <p>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.</p> <p>We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p> | <p>We:</p> <ul style="list-style-type: none"><li>▶ Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;</li><li>▶ Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes; and</li><li>▶ Amended our sample sizes when testing PPE additions to reflect the existence of this risk, agreeing samples to source documentation to ensure the classification was reasonable</li></ul> <p>Our testing did not identify any material misstatements from revenue and expenditure recognition.</p> |

| Other Risk  | Conclusion  |
|---|---|
| <p><b>Pension Net Liability:</b></p> <p>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.</p> | <p>We are satisfied that the Council 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.</p> <p>We have liaised with the auditors of Hampshire County Council, and received the required information.</p> <p>This year, there has been an ongoing national issue which has meant that a late change was required to the Council's pension net liability. It related to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling".</p> <p>The financial statements were amended as a result, increasing the past service cost by £470k, which increased the pension liability by the same amount.</p> <p>Disclosures amendments were made to clarify how this ruling was included in the accounts.</p> <p>An amendment was also made to the disclosures to include all movements relating to actuarial assumptions.</p> |



## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

| Other risk   | Conclusion   |
|--|--|
| <p><b>Valuation of Property, Plant and Equipment, and Investment Properties.</b></p> <p>The value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts.</p> <p>Management are required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>In assessing this risk, we considered the material valuations of operational and investment property held by the Council, the varied nature of these assets and the basis on which they are valued, including the need to apply judgement. We also considered the assets not revalued in year to assess the likelihood of material misstatement within the population.</p> | <p>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.</p> <p>Accounting entries were correctly processed within the financial statements.</p> <p>We verified that all PPE requiring valuations have been valued within the 5 year cycle.</p> <p>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 &amp; Building value at £36.8m. We performed procedures for the remaining assets, giving assurance that there would be no material change to their valuations.</p> <p>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</p> |



## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

| Other Key Findings  | Conclusion  |
|---|---|
| <b>Non-Domestic Rates (NDR) Appeals Valuation.</b><br><br>The Non Domestic Rates Appeals Provision requires a number of assumptions and judgements  | We focused on the following: <ul style="list-style-type: none"><li>▶ The reasonableness of the assumptions to appeals made to the 2005 and 2010 ratings lists;</li><li>▶ 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.</li></ul>   |
| <b>New Accounting standards: IFRS9 Financial Instruments.</b><br><br>This new accounting standard was applicable for local authority 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.  | We reviewed the assumptions, methods and models used by management, and had no issues to report. <ul style="list-style-type: none"><li>▶ 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 lacked any complex financial instruments.</li><li>▶ 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.</li></ul> |
| <b>New Accounting standards: IFRS15 Revenue from Contracts with Customers</b><br><br>This new accounting standard was applicable for local authority 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. | <ul style="list-style-type: none"><li>▶ We 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;</li><li>▶ For relevant revenue streams we confirmed that revenue was recognised in line with the requirements of IFRS 15; and</li><li>▶ Disclosures were in line with the requirements of IFRS 15.</li></ul>   |
| <b>Treatment of Calthorpe School Sports Hall</b><br><br>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.                            | <ul style="list-style-type: none"><li>▶ We found that 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. The disclosure in the 2018/19 accounts was correct.</li></ul>   |



## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

### Other Matters

We reported other significant findings from the audit

#### 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.
- Due to the impact of the above, there was a clear inability to complete the audit by the Council's target date of 31 July, We agreed with the s151 officer to reschedule the audit for a later period in order for officers to be able to correct the statements, and prepare and accurate supporting working papers according to our agreed information request.
- **Delays in receiving evidence:** There were a number of significant delays to key audit evidence being obtained. These were both at the interim and final stages, and in particular information that we required for our "walkthroughs" of the Council's key financial systems. Some information for a number of those systems took 6 months to provide. 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.
- The overall audit process this year was subject to ongoing challenges and delays, considerably lengthening the time required to be able to complete the audit.



## Financial Statement Audit (cont'd)

### Our application of materiality

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

| Item                 | Thresholds applied  |
|----------------------|---|
| Planning materiality | We determined planning materiality to be £867k, which is 2% of gross revenue expenditure reported in the accounts.<br>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 £43k.   |

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

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

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



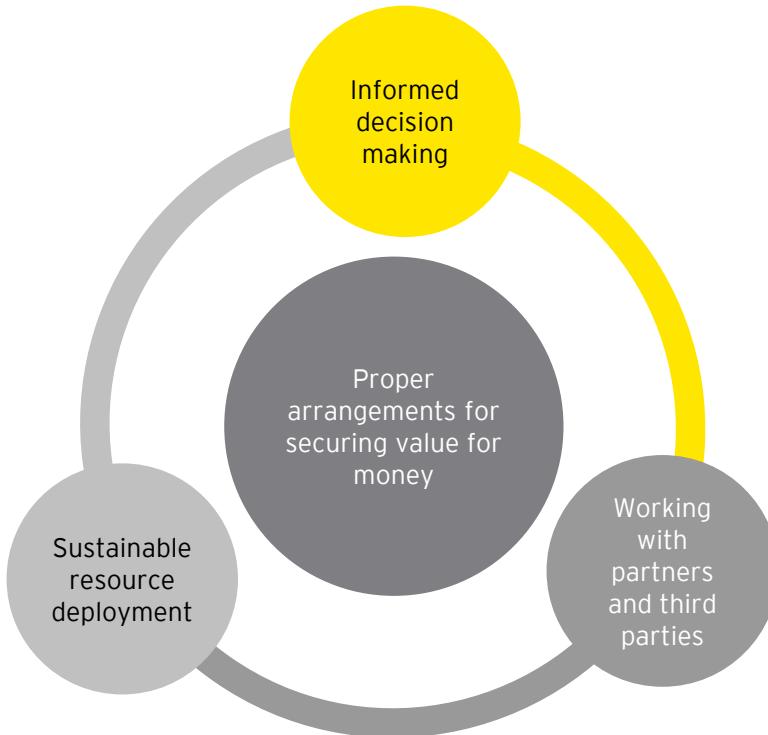
## 04 Value for Money

# £ Value for Money

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

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

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



We identified one significant risk in relation to these arrangements. The table overleaf present the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention.

We performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. Therefore, we gave an unqualified Conclusion on 19 December 2019.



## Value for Money (cont'd)

| Significant Risk                                  | Conclusion  |
|---|---|
| Implementation of the 5 Councils (5 C's) contract | <p>Whilst there are issues with the 5 C'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 C's contract:</p> <ul style="list-style-type: none"><li>○ 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").</li><li>○ 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.</li><li>○ 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.</li></ul> |

The background of the slide shows a blurred image of a microphone on a stand in front of an audience seated in rows of yellow chairs. The audience members are out of focus.

## 05 Other Reporting Issues



# Other Reporting Issues

## Whole of Government Accounts

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

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

## Annual Governance Statement

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

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

## Report in the Public Interest

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

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

## Written Recommendations

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

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

## Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.



# Other Reporting Issues (cont'd)

## Other Powers and Duties

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

## Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 3 December 2019. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## Control Themes and Observations

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

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls. 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  |
|--|---|
| Capita payroll and pensions administrative services were under-resourced | There were significant delays in responses to audit queries on payroll and pensions systems which we are required to walkthrough. |



06

Focused on your future



# Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

| Standard                              | Issue   | Impact  |
|---------------------------------------|---|---|
| IFRS 16 Leases                        | <p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p> | <p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p> |
| IASB Conceptual Framework             | The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.   | <p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>   |
| CIPFA guidance on property investment | On 15 November 2019 CIPFA released guidance to advise local authorities on what is expected of them when investing in property.   | This guidance should be reviewed to ensure good practices are being adopted, and the Council's activities are consistent with the guidance.   |



## 07 Audit Fees



# Audit Fees

Our fee for 2018/19 is increased from the scale fee set by PSAA. This is a result of:

- The identification of one value for money conclusion risk.
- Significant issues experienced in the delivery of the financial statements audit, as referred to within section 3 of this Annual Audit Letter.

| Description                            | Final Fee 2018/19<br>£ | Planned Fee 2018/19<br>£ | Scale Fee 2018/19<br>£ | Final Fee 2017/18 (previous auditor)<br>£ |
|--|------------------------|--------------------------|------------------------|---|
| Total Audit Fee - Code work            | 63,045                 | 41,469                   | 41,479                 | 69,790                                    |
| Non-audit work<br>- Claims and returns | 11,738                 | 11,738                   | n/a                    | 12,804                                    |

Further information on the scale fee variations are set out below. This is subject to approval by PSAA Ltd.

| Description                               | Value         | Rationale  |
|---|---------------|--|
| VFM significant risk - 5 C's Contract     | 3,068         | Addition to audit scope to address the Council's response to the qualification of its VFM conclusion in the prior year,            |
| Financial Statements audit                | 18,508        | Additional work undertaken as a result of delays and issues experienced during the audit as reflected in section 3 of this letter. |
| <b>Total Proposed Scale fee Variation</b> | <b>21,576</b> |  |

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