Havant Borough Council

Annual Audit Letter for the year ended 31 March 2020

July 2021

Building a better working world

Contents

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

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

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

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

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

Section 1

Executive Summary

Executive Summary

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

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

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. Our audit was scheduled to meet this timescale, but we were unable to provide our audit report due to the delays experienced in obtaining suitable and appropriate evidence. We provided detail of the timelines and delays within our Audit Results Report presented to the 21 July 2021 Audit & Finance Committee.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment (PPE) and Investment Properties	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation reports produced by the Council's internal valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures, and assumptions underpinning the valuation of property, plant and equipment and investment properties.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: • Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and • Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

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

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

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

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500m. Therefore, we did not perform any detailed audit procedures on the consolidation pack. We had no matters to report to the NAO.

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 5 July 2021
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 26 July 2021

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

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

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 21 July 2021 Audit and Finance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 17 September 2020. It is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

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

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

Responsibilities of the Council

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

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

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 26 July 2021.

Our detailed findings were reported to the 21 July 2021 Audit and Finance Committee.

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

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We did not identify any material weaknesses in controls or evidence of material management override. We did not identify any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. We did not identify any inappropriate journal entries.
Risk of fraud in revenue and expenditure recognition Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.	We documented our understanding of the controls relevant to this significant risk and considered whether they have been appropriately designed. We then: • Tested the appropriateness of manual journal entries recorded in the general ledger between revenue and capital codes. • Amended our sample sizes when testing capital additions to reflect the existence of this risk. • Agreed samples to source documentation to ensure the classification was reasonable. • Selected a sample of Revenue Expenditure Funded by Capital under Statute, using lowered testing thresholds, to confirm it was appropriate for the expenditure incurred to be funded from capital sources. Our testing did not identify any material misstatements from capitalising revenue spend.

Financial Statement Audit (cont’d)

Significant Risk	Conclusion
Valuation of investment properties and Property, Plant & Equipment (PPE) The value of Investment Properties and PPE represent significant balances in the Council’s accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Furthermore, we identified significant errors in the prior year in relation to property valuations The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. This impact is expected to affect Investment Properties and certain categories of PPE as the valuation basis for these properties are linked to recent market transactions and future income generation. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council’s external valuers.	We reviewed the instructions and data provided to the valuer by the Council. We identified no issues. We reviewed the classification and valuation methods used. Other than the matter mentioned below in relation to Community Centres, we identified no issues with the classification and valuation methods used by management. We considered the annual cycle of valuations and confirmed that assets have been valued within a 5 year rolling programme as required by the Code. We reviewed assets not subject to valuation in 2019/20 and confirmed that the remaining asset base was not materially misstated. We reviewed the scope and relationship of the valuer to the Council and identified no issues. We were satisfied that disclosures in the accounts were appropriate concerning the material uncertainty. Our review of accounting entries at period end and those journals made in processing valuation adjustments did not identify any issues, other than those outlined below. We reviewed a sample of valuations, including using our internal specialists. We confirmed that, except for the following properties, the assumptions used, including those related to ERVs/yields were appropriate. Management opted not to correct the differences below as the net impact was immaterial: • Southmoor Lane Depot – valuation £240k above the upper end of our expected range of £3.8m. Management adopted a yield of 6.30% whereas our research determined an equivalent yield of 6.75%-7.25%. • Bowls Pavilion Horndean Road – valuation overstated by £77k due to the incorrect gross internal area (GIA) used

Financial Statement Audit (cont'd)

Significant Risk	Conclusion
Valuation of investment properties and PPE (cont'd) The value of Investment Properties and PPE represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Furthermore, we identified significant errors in the prior year in relation to property valuations The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. This impact is expected to affect Investment Properties and certain categories of PPE as the valuation basis for these properties are linked to recent market transactions and future income generation. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuers.	Errors that were adjusted for as a result of our work include: • £1.3m downward revaluations of Property, Plant & Equipment (PPE) as a result of difference in the PPE valuation report and amount recognised in fixed asset register. • £1.128 upward revaluations as a result of valuations performed incorrectly. The misstatement was identified by the management and it was classified to investment properties. • £1.27m downward revaluations of PPE as a result of wrong GIA used by the Council's valuer. • £0.555m understatement of investment property as a result of difference in investment property valuation report and amount recognised in fixed asset register,
Pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 the net pension liability totalled £44,990k. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We obtained assurances from the auditors of Hampshire County Council Pension Fund that the information supplied to the actuary in relation to Havant Borough Council was accurate and complete. We have assessed and are satisfied with the competency and objectivity of the Council's actuary Aon Hewitt. We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate. We identified a difference in the estimated fair value of plan assets of the pension fund compared to the actual outturn for the year. This decreased the pension asset by £510k (Havant Borough Council's share) resulting in a increase in the net pension liability. Management opted not to amend the accounts as the impact was immaterial and therefore did not request an updated IAS 19 report from the Actuaries.

Financial Statement Audit (cont'd)

Other financial statement risk	Conclusion
Going concern The Council prepares its accounts on the assumption that it will continue as a going concern. The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake an updated detailed assessment to support its going concern assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the approval of the accounts, rather than the balance sheet date. So, for the 2019/20 statements, for example, we needed to see evidence of an assessment up to and including July 2022.	We reviewed the proposed going concern disclosures for inclusion in the financial statements and the Council's forecast cash flows. In our view no significant uncertainty exists that may cast doubt on the Council's ability to continue as a going concern or impacting the delivery of its services, which would be required to be disclosed. The key issues we reflected on for our assessment relate to a combination of the Council's liquidity and its level of General Fund reserves. Management's assessment demonstrates that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital. The Council updated its disclosures in the accounts to reference these factors and were satisfied the revised disclosures adequately and sufficiently disclose material events and conditions in relation to the going concern assumption of the Council and that no material uncertainties exist.
NDR Appeals valuation The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements. In addition, in previous years we have identified errors above our audit differences threshold.	We have reviewed the calculation of the provision and confirmed that the calculation was accurate. We confirmed that the provision considered unlodged appeals. We noted few minor issues with the disclosure in the draft financial statement, which management corrected. We reviewed the assumptions, methods and models used by management's specialist. We identified no issues.

Financial Statement Audit (cont’d)

Other key findings	Conclusion
Corrected Audit differences	In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation. We highlight the following misstatements greater than £0.072m identified during the course of our audit which management corrected: • £1.3m downward revaluations of Property, Plant & Equipment (PPE) as a result of difference in the PPE valuation report and amount recognised in fixed asset register. • £1.128 upward revaluations of PPE as a result of PPE valuations was performed incorrectly. The misstatement was identified by the management and it was classified to investment properties. • £2.528m prior year adjustment in relation to an understatement of income and expenditure relating to Coastal Partnership. This adjustment does not affect the overall net figures in the accounts. • £0.292m. reclassification of overdraft balance from Cash and cash equivalent to current liabilities in the financial statements. • Overstatement to short term debtors and understatement in short term creditor of £0.359m in relation to an error on clearing the cash control accounts to council tax and NNDR. • £1.27m downward revaluations of Property, Plant & Equipment (PPE) as a result of wrong GIA used by the Council’s valuer. • £0.555m understatement of investment property as a result of difference in investment property valuation report and amount recognised in fixed asset register. • £0.666m inconsistency in the prior year restructuring of the portfolio classification between the Executive office portfolio and Head of Customer Services portfolio; and • Some minor misstatements in disclosures

Financial Statement Audit (cont'd)

Other key findings	Conclusion
Uncorrected Audit differences	Management chose not to correct the following misstatements as they view them as not material and had no impact on the overall financial statements: • £118k overstatement of expenditure. Expenditure incurred in 2018/19 was recognised in 2019/20 • £159k misstatement due to cash timing differences between collection fund systems • £77k valuation difference due to incorrect GIA used by the Council's valuer • £510k valuation difference in relation to the Fair Value of plan assets of the Pension Fund • £240k judgmental overstatement of the valuation for Southmoor Lane Depot due to the use of a lower yield resulting in a higher valuation • £214k overstatement of Note 14 – PPE due to evidence not being provided to support disposals, as such we were not able to verify whether these items were appropriately disposed of. Management had no disposal records for these items.

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 £1.465m (2019: £1.289m), which is 2% of gross revenue expenditure reported in the draft accounts of £73.3m. 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 and Finance Committee that we would report to the Committee all audit differences in excess of £0.073m (2019: £0.065m)

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

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

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

Section 4

Value for Money

Value for Money

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

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

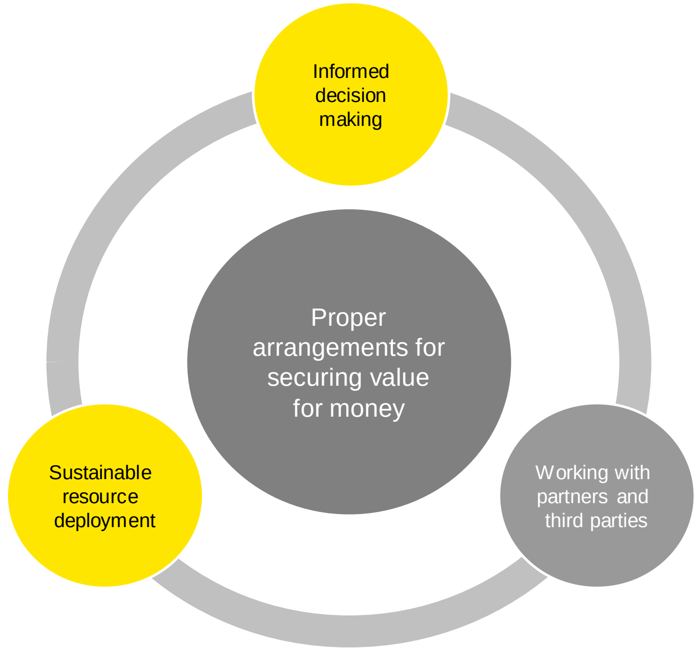
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Government bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We identified one significant risks in relation to these criteria.

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

We therefore issued an unqualified value for money conclusion on 26 July 2021.



Value for Money (cont'd)

Significant Risk

Partnership working - revised Corporate Services Contracts

In October 2017, Havant Borough Council (the Council) entered into two contracts for the provision of corporate services, in partnership with Hart District Council, South Oxfordshire District Council, Vale of the White Horse District Council and Mendip District Council (known as the "Five Councils"). The services were originally split into two lots; data-based services (Lot 1) and property based services (Lot 2).

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, in October 2018, and pull out of Lot 2, in January 2018, due to the issues with the way the contracts were constructed and the implications for the practical implementation of them.

In October 2018, the Five Councils drafted the new Inter-Authority Agreement (IAA) which outlined the revised governance and cost sharing arrangements between them.

The 5 Councils are now exiting the contract for some services as at 31 March 2020. Havant Borough Council in particular have brought back Finance, HR and Payroll in-house as of 1 April 2020. The remaining services will remain with Capita for at least one further year. Given the short timescale for termination of the contract there is a risk that both the services and financial performance of the Council would be negatively impacted if new arrangements, from 1 April 2020, are difficult to implement or do not deliver the intended benefits in a sufficiently timely manner.

Value for Money (cont'd)

Conclusion

In line with the governance arrangements in the IAA, service performance and contract change discussions continued to be reported to the regular 6 weekly meetings of the 5 Council's Strategic Management Board (SMB), Operational Management Board (OMB) and the Joint Tactical Board (JTB) during 2019/20. In the latter part of 2019/20, the 5 C's Strategic Partnership Project Team began to facilitate the insourcing of services. Business cases for alternative solutions were discussed for each service provided by Capita and it was decided that the HR, Payroll and Accountancy services would be re-provisioned with effect from 1 April 2020. Exchequer and IT services still remain with Capita, but at the time of writing this report, these are currently being reviewed to decide on the best options going forward for 1 April 2021.

On 1 April 2020, the HR, Payroll and Accountancy all transitioned back into Havant with no disruption to service provision.

The HR and Payroll service is being adequately managed in-house. South Oxfordshire District Council is the lead Authority as the Zellis contract/software which is used to run the payroll services and has been novated to them. The Zellis system administrator has been TUPE'd across and this service and associated costs are shared across all the Authorities. The rest of the staff are South Oxfordshire staff and their costs are recharged proportionately across the other Authorities, except Mendip who have taken a different route for HR & Payroll services. No significant issues since services have been transferred. HR/Payroll have eliminated all errors, staff are being paid correctly and on time, almost zero error rate.

For accountancy, there was an agreed finance structure put in place as Havant TUPED 4 Capita staff back in-house and agreed a joint delivery of financial services with East Hampshire District Council under a new contract. Processes are working much better and the finance team have been focused on the financial year-end, producing two sets of financial statements for both Havant Borough Council and East Hampshire District Council, as well as supporting the business grant response to Covid-19.

The cost of exiting the Capita contract for HR, Payroll and Accountancy was a one-off payment for Havant and the Council had put monies aside in an earmarked reserve to cover these costs and the parties agreed for the Authorities not to pay a contract milestone in March.

The adoption of a new business model by Capita is a key strategic risk on the Council's Strategic Risk Register for 2019/20 and 2020/21. Regular reporting on the actions to mitigate the risk around the transfer of services has been received by the Council's Audit and Finance Committee who monitor this Risk Register on a quarterly basis. Whilst the Council reports on refining relevant business cases, in line with negotiations, it also reported that there is no indication that Capita intend to cease delivering any services that the Councils are not prepared to nor will withdraw from.

In terms of whether the arrangements to exit the contract were adequate, we conclude that there were clear arrangements to manage the transition to ensure the continuity of services for HR, Payroll and Accountancy services. Whilst negotiations now turns to the remaining services, with particular focus on Exchequer Services and IT, we suggest that management carry out individual services reviews of the HR, Payroll and Accountancy services to ensure that the new services delivered the intended benefits and continue to improve service performance.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

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

The Council is below the specified audit threshold of £500mn. 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 2019/20 financial statements from members of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Finance Committee on 21 July 2021. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Other Reporting Issues (cont’d)

Control Themes and Observations

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

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

Section 6

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	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2022/23 financial year. 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. There are transitional arrangements within the standard and although the 2022/23 Accounting Code of Practice for Local Authorities has yet to be released, 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.	Until the revised 2022/23 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. 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.

Our audits of the Borough Council for the last two years have been challenging, for a number of reasons that we have articulated in our 2018/19 and 2019/20 Audit Results Reports. These have been linked, among other factors, to changes in the Council's financial services provider and recruitment of a permanent finance team after ending the outsourcing contract, and the Covid-19 pandemic. We are committed to working with the Council's officers to reduce the elapsed time taken to complete future audits, building on the experiences of the 2019/20 audit and the improvements that we did note this year.

Appendix A

Audit Fees

Audit Fees

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

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Scale Fee – Code work	36,036	36,036	36,036	36,036
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	34,998	N/A	N/A	N/A
Non-audit work – Grant claims	N/A	N/A	N/A	27,733
Revised proposed scale fee	71,043	N/A	N/A	N/A
Additional work required for going concern and Covid-19 considerations (see Note 2)	2,500	2,500		4,700
Additional work required for PPE valuation (see Note 3)	15,000	15,000		13,199
Additional work required to address the value for money risks identified (see page 20)	3,528	3,528		3,528
The preliminary work undertaken on group accounts (4)	500	500		1,525
Significant difficulties encountered during the audit process as highlighted in our Audit Results Report	17,229			25,586
Additional work undertaken on the CIES/EFA restatement in relation to the changes in the internal reporting structure as well the additional work on the prior period adjustments in relation to the Coastal Partnership	1,500			
Additional work on aspects of housing benefit income and expenditure which would previously have been performed as part of HB certification (see Note 5)	382			
Total Audit Fee	111,673	57,564	36,036	112,307

Audit Fees (cont'd)

Note 1

We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. This was communicated in our 2019/20 Audit Results Report.

Note 2

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

Note 3

To engage EY Real Estate, our internal property specialists, to review a sample of valuations of investment properties and EUV assets and additional work to audit the misstatements identified.

Note 4

The Council did not inform us of the decision not to prepare group accounts to equity account for the interest in Norse South East Ltd as in previous years. We performed some preliminary work to prepare to audit the group accounts but discovered that group accounts were not prepared when we reviewed the draft accounts.

Note 5

This had to be done separately as we are not the HBAP reporting accountant, therefore, increasing the scope where remuneration would previously have been under HBCOUNT principle through HB certification work.

This additional fee is subject to approval by the PSAA.

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ED None

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