



Havant Borough Council Audit results report

Year ended 31 March 2020

March 2021



EY

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Members of the Governance, Audit and Finance Board
Havant Borough Council
Public Service Plaza
Civic Centre Road
Havant
PO9 2AX

11 March 2021

Dear Governance, Audit and Finance Board Members

We are pleased to attach our audit results report for the forthcoming meeting of the Governance, Audit and Finance Board. This report summarises our preliminary audit conclusion in relation to the audit of Havant Borough Council for 2019/20. We will issue our final report following the Governance, Audit and Finance Board meeting scheduled for 24 March 2021, and when all outstanding work has been completed.

Our audit of Havant Borough Council for the year ended 31 March 2020 is in progress at the time of writing this report, predominantly waiting on evidence that we have requested from the Council and has now been outstanding for some time. We will provide an update on the status of the audit at the 24 March 2021 meeting.

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 expect to have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Governance, Audit and Finance Board, other members of the Authority, 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 thus far.

We welcome the opportunity to discuss the contents of this report with you at the Governance, Audit and Finance Board meeting on 24 March 2021.

Yours faithfully

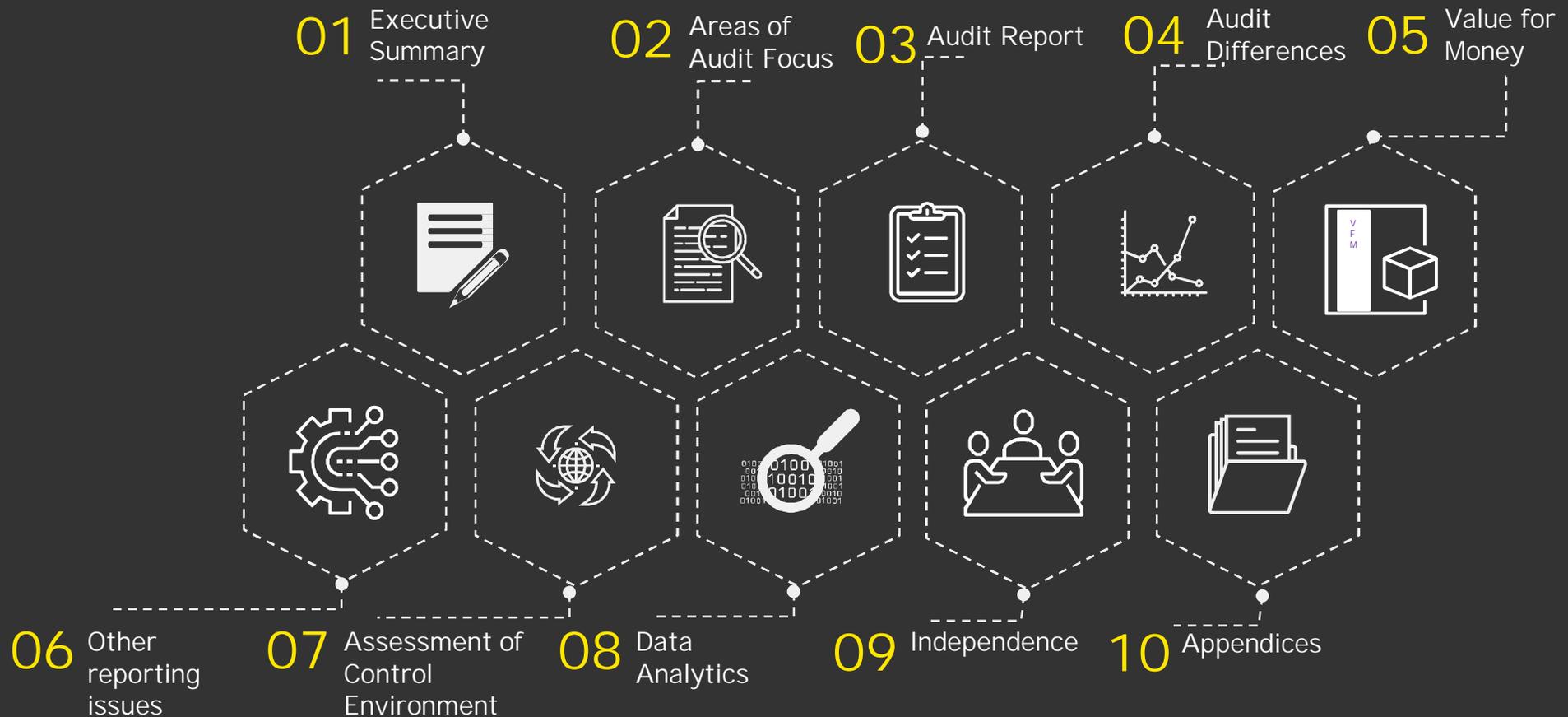
Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) 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). 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 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.



01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented at the 7 October 2020 Governance, Audit and Finance Board 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 exceptions:

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 are unable to provide our audit report due to the delays experienced in providing suitable and appropriate evidence.

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 Authority'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.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out a provisional estimate of the impact on our audit fee in Section 9.

Executive Summary

Status of the audit

We have substantially completed our audit of Havant Borough Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report. We will provide an update on the status of the audit at the 24 March 2021 meeting. Subject to satisfactory completion of the following outstanding items 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:

- Property, plant and equipment (PPE) and investment property valuations – responses to our valuation queries are still outstanding
- Collection fund debtors and creditors balance – a few queries are still outstanding relating to differences identified in the collection fund balance.
- Review of management's going concern cashflow forecast, and related internal consultation procedures regarding our auditors' report (audit opinion)
- Review of financial instrument disclosure corrections
- Review of Authority's prior year restatement disclosure, and related internal consultation. Only partial evidence of corrections have been received to date.

The evidence to support our work in these areas have now been outstanding for some time, and we provide further information on the delays to the audit progress in Section 6 of our report.

The following are also outstanding or are to be completed as part of the conclusion of the audit once the remaining evidence has been provided:

- completion of our audit conclusion procedures
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion.

Once the internal consultation regarding our audit opinion is complete, we will confirm whether there are any matters which the opinion will need to emphasise with regard to going concern or PPE/Investment Property valuations.

Executive Summary

Audit differences

At the time of writing we identified unadjusted and adjusted audit differences in the draft financial statements relating to Net Pension Liability, Property, Plant and Equipment, Expenditure, Cash and Cash Equivalent, Financial Instruments and various disclosures. Details can be found in Section 4 Audit Differences.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Governance and Audit and Finance Board at the meeting on 24 March 2021 if we identify any issues by the time of the meeting.

Areas of audit focus

Our audit planning report identified key areas of focus for our audit of Havant Borough 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 "Areas of Audit Focus" section of this report. The areas of focus were as shown below. Where work is ongoing at the time of writing this report, a verbal update will be provided at the Governance, Audit and Finance Board meeting on 24 March. The conclusions shown below remain subject to final review.

- Risk of fraud in revenue and expenditure recognition: inappropriate capitalisation of revenue expenditure - no issues have been identified from our work to address this risk at the time of writing this report except a cut off issue, which is included in the unadjusted summary of audit differences section below.
- Misstatements due to fraud or error - no issues have been identified from our work to address this risk at the time of writing this report.
- Valuation of Land and Buildings and Investment Property - our work to address these risks, with input from our internal valuation specialists, is ongoing
- Going concern - our work in this area is ongoing
- Pension Liability Valuation - our work to address this risk is well progressed. One matter arising relating to Pension asset valuation but the difference is below our materiality threshold.
- NNDR Appeals Provision - no issues have been identified from our work to address this risk at the time of writing 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 Governance and Audit and Finance Board.

Executive Summary

Control observations

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 and which is unknown to you.

Other reporting issues

We review the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We do not expect to have any matters to report as a result of this work.

We are yet to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and will provide an update to the Committee following completion of this work.

We have no other matters to report.

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 one significant risk over sustainable resource deployment and informed decision making.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Details can be found in Section 5 Value for Money.

Independence

Please refer to Section 9 for our update on Independence. We have no independence issues to report.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Inappropriate 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. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

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

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.
- We selected a sample of REFCUS expenditure, using lowered testing thresholds, to confirm it was appropriate for the expenditure incurred to be funded from capital sources

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.

We have identified two errors relating to cut off issues in our testing of PPE additions. Items of PPE relating to the prior year were incorrectly capitalised in the current year. We have reported these errors in the section 4 below.

Overall our testing of additions, REFCUS expenditure and journals has not identified any indications of inappropriate capitalisation of revenue expenditure or inappropriate classification of transactions as REFCUS



Areas of Audit Focus

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 Governance, Audit and Finance Board 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?

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

Significant risk

Valuation of Investment Properties and PPE

What is the risk?

The value of Investment Properties and Property, Plant and Equipment (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 judgements 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.

Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents and seek to negotiate rent reductions as the tenants can no longer trade effectively. This could have a significant impact on investment properties and certain categories of PPE which are valued using assumptions based on future income generation.

What did we do?

We:

- Considered the work performed by the Authority's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuers.
- For PPE, 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 2019/20 to confirm that the remaining asset base is not materially misstated.
- Tested accounting entries have been correctly processed in the financial statements.
- For PPE, consider the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions.
- Ensured that appropriate disclosure has been made in the financial statements concerning the material uncertainty.
- Obtained input from EY Real Estates, our internal specialists on asset valuations for Investment Properties and PPE, including inputs on market sentiment and how it has been reflected in the valuations.



Areas of Audit Focus

Significant risk

What are our conclusions?

We have not been able to complete this complex area of work as there are still responses outstanding to our valuation queries which management are currently working on. We will provide you with a verbal update on the outcome of our procedures at the Governance, Audit and Finance Board meeting on 24 March 2021. To date:

- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.
- We have reviewed the classification and valuation methods used, subject to management's responses to our outstanding queries, 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.
- The external valuers reported their valuations on the basis of 'material valuation uncertainty' for both PPE and Investment Properties and we have recommended that management update Note 4 'Assumptions made about the future and other major sources of estimation uncertainty' to ensure the appropriate disclosure has been made 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.



Areas of Audit Focus

Other financial statement risk

Pension 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 Local Government Pension Scheme administered by Hampshire County Council.

The Council's pension fund deficit contains material estimations and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £44.99m.

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.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Authority's expert - Aon Hewitt;
- Ensuring the information supplied to the actuary in relation to Havant Borough Council was complete and accurate; and
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Aon Hewitt.

What did we do?

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Havant Borough Council;
- Assessed the work of the Pension Fund actuary (AON Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered relevant reviews by the EY actuarial team;
- Reviewed the actuaries estimates to outturn information where available; 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 obtained assurances from the auditors of Hampshire Pension Fund that the information supplied to the actuary in relation to Havant Borough Council was materially accurate and complete.

We have assessed and are satisfied with the competency and objectivity of the Council's actuaries: 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.



Areas of Audit Focus

Other financial statement risk

Going concern

What is the risk?

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 a 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 audit opinion date, rather than the balance sheet date. So, for the 2019/20 statements, for example, we will need to see evidence of an assessment up to and including April 2022. This will need information relevant to the 2022/23 financial year.

What judgements are we focused on?

We focused on management's assessment of the going concern assumption in preparing the Council's financial statements. We also in the process of reviewing management's cash flow forecasts to determine whether expected forecasting appeared reasonable and whether it was sufficient to enable the Council to continue its operations.

We also discussed with management further disclosures required in the 2019/20 statements on going concern.

What did we do?

- We reviewed the Governance, Audit and Finance Board's assessment of the appropriateness of the going concern assumption;
- We reviewed and challenged the level and form of disclosure of this assessment made in the financial statements, given the Covid-19 pandemic; and
- We are currently reviewing the Council's cash flow forecasts and financial plans for the foreseeable future to ensure that these are sufficiently robust and supported by adequate evidence, and that the cash flow forecasts demonstrates that the Council has sufficient liquidity to continue its operations.

What are our conclusions?

Our work on going concern, and the related internal consultation process, is ongoing at the time of writing this report as we had only recently received management's cash flow forecast which underpins the going concern assessment, hence we have not yet been able to conclude. Based on our work performed to date:

- Our review of management's continued use of the going concern assumption concludes it remains appropriate;
- We reviewed the proposed going concern disclosures for included in the draft financial statements and worked with management to recommended improvements to these disclosures. Management subsequently enhanced the disclosures;

The conclusion of our work may indicate an emphasis of matter is required for our audit opinion. This is not a qualification, but draws attention to the reader of the accounts such matters that are important for their understanding of the Statement of Accounts, that are properly disclosed. We cannot conclude whether this is required until the work on management's cash flow forecast is complete.

We will provide an update at the Governance, Audit and Finance Board meeting on 24 March.



Areas of Audit Focus

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.

In addition, in the prior year we have identified an error above our audit differences threshold.

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;
- Considered the work performed by the Council expert, Analyse Local and understood the assumptions used in their calculation;
- Ensured the Council has amended the provision appropriately for any Business Rate reliefs awarded; 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 noted few minor issues with the disclosure in the draft financial statement, which management has agreed to correct.

We reviewed the assumptions, methods and models used by management's specialist. We identified no issues.



03 Audit Report

Audit Report

Draft audit report

As set out on page 5, we are unable to conclude on the final form of our audit report until all procedures are completed, especially those relating to Going Concern disclosures and property valuations. We may include an emphasis of matter relating to the Council's Going Concern disclosures or other impacts of Covid-19 in addition to the form and content set out below. We have shown an example emphasis of matter paragraph for reference – but this may not be needed in the actual audit report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAVANT BOROUGH COUNCIL

Opinion

We have audited the financial statements of Havant Borough Council for the year ended 31 March 2020 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,
- The related notes 1 to 29 and the Expenditure and Funding Analysis, and
- Collection Fund and the related notes 1 to 3

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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Havant Borough Council as at 31 March 2020 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 2019/20

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below.

We are independent of the authority 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.

Emphasis of matter – Disclosure in relation to the effects of COVID-19

We draw attention to Note 29 of the financial statements, which describes the economic consequences the Authority is facing as a result of COVID-19 which is impacting its financial and operation position and performance during 2020/21 and beyond.

Our opinion is not modified in respect of this matter.

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 Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer 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.



Audit Report

Our proposed audit report

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Chief Financial Officer 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.

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 April 2020, we are satisfied that, in all significant respects, Havant Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer Responsibilities set out on page 39, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which [includes the financial statements], in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.



Audit Report

Our proposed audit report

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 April 2020, as to whether the [name of 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. 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 the [name of body] put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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, the Havant Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority 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 Havant Borough 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 Havant Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £0.072m identified during the course of our audit which management have 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 the investment property.
- £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. Further amendments are still required to the cash flow statement and the notes to the accounts but we are yet to receive these.
- £0.292. reclassification of overdraft balance from Cash and cash equivalent to current liability in the financial statement.
- Some misstatements in disclosures

As our audit work is ongoing at the time of writing this report, further adjusted misstatements may be identified. We will provide an update at the Governance, Audit and Finance Board meeting on 24 March 2021.



Audit Differences

Summary of unadjusted differences

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

	Assets Non-current	Liabilities Current	Liabilities Non-current	Reserves	Other comprehensive income	CIES
Uncorrected misstatements	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)			Debit/(Credit) Current period
Known differences:						
▶ Expenditure recognised in the incorrect period. Expenditure incurred in 2018/19 was recognised in 2019/20				118k		(118k)
▶ Capital additions recognised in the incorrect period. Capital expenditure incurred in 2018/19 was recognised in 2019/20	(436k)			436k		
▶ Valuation difference in relation to the Fair Value of plan assets of the Pension Fund			(510k)		510k	
Total	(436k)	-	(510k)	554k	510k	(118k)

As our audit work is ongoing at the time of writing this report, further unadjusted misstatements may be identified. We will provide an update at the Governance, Audit and Finance Board meeting on 24 March 2021.



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.

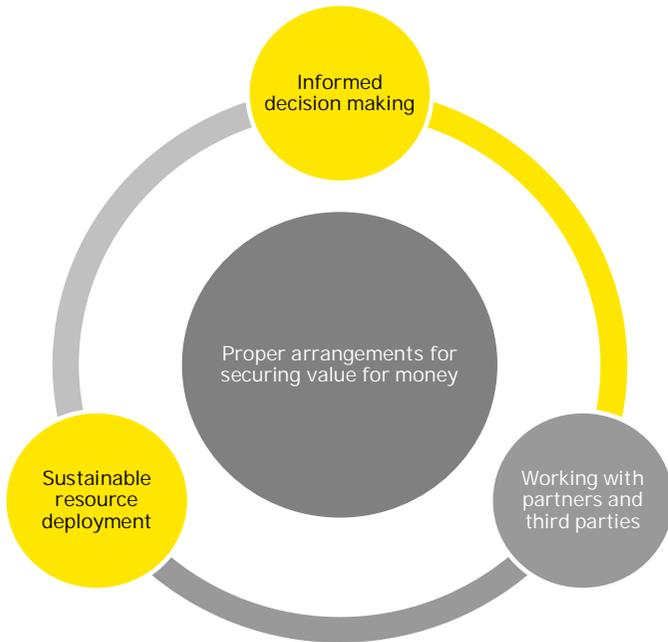
For 2019/20 this is based on the overall evaluation criterion:

"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.



Impact of covid-19 on our Value for Money assessment

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 Authorities' 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.

Overall conclusion

We identified one significant risk around these arrangements relating to the impact on the Council exiting the 5 Councils contract. The table below presents our findings in response to the risk in our audit planning report and any other significant weaknesses or issues we want to bring to your attention.

We expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:
“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”
 Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.
 The section below presents the findings of our work in response to the risks area in our audit planning report. No further risks were identified during the course of our audit.

What was the significant value for money risk?

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.

What arrangements did the risk affect?

Deploy resources in a sustainable manner / Informed decision making

Value for Money Risks

Audit findings

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 Ox 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 Governance, Audit and Finance Board 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.



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 2019/20 Financial Statements 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 2019/20 Statement of Accounts and published with the financial statements was consistent with the audited financial statements.

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

Whole of Government Accounts

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

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Governance, Audit and Finance Board following completion of this work. The audit certificate will be issued once this work is complete.

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 Council's financial reporting process. They include the following:

Any significant difficulties encountered during the audit

- We commenced the audit in August for 6 weeks and completed audit work on cash and cash equivalent, debtors, creditors, borrowings, reserves, housing benefit, REFCUS, finance and investment income, value for money procedures, income testing and disclosures. At the end of our visit queries on the following areas were still outstanding: PPE & IP valuation, PPE disposals, collection fund debtors / creditors, NDR appeals provision, pensions, grant receipts in advance, earmarked reserve, expenditure testing, grant income, taxation and non specific grant income, collection fund, financial instrument disclosure, cashflow statement, journal entry testing and management's going concern assessment.
- We came back in November and December but management had not made significant progress. We managed to complete grant receipts in advance, expenditure testing, grant income, taxation and non specific grant income and cash flow statement during this time but the queries on the remaining areas were still outstanding.
- We recommenced the audit in January for 4 weeks and completed procedures on the NDR appeals provision, earmarked reserves, collection fund and journal entry testing but we had still not received the going concern cash flow forecast as the finance team were working on the 21/22 budgets and MTFS. We raised further queries on property valuations during this time and left those with management and we gave the finance team 3 weeks to obtain all outstanding information and to respond to the outstanding queries. Upon our return in March the property valuation, PPE disposals, collection fund debtors / creditors and financial instrument disclosure queries were still not responded to. The internal property team were reprioritised to work on setting up Covid-19 testing facilities and were unable to respond to any of our queries.
- Generally we had issues with the quality of supporting working papers where evidence provided had no clear rationale to support the balances and there were often delays in receiving the information requested. Often the quality of the evidence was not adequate and we had to go back on multiple occasions to get satisfactory evidence to support the transactions we were testing. The interim Head of Finance who prepared the draft accounts had left the Council once the draft accounts were submitted and the finance team struggled to obtain the relevant working papers to respond to some of our requests.
- There were numerous requests to update the NDR appeals provision disclosure in the financial statements in order to allow us to perform sample testing on this balance. These updates were outstanding at the end of our August/September visit and was only processed in January. We were then able to undertake our testing on this balance.
- We requested management's going concern assessment during our August/September visit and although this was provided in December, it did not include the cash flow forecast underpinning this assessment as the Council was updating this as part of their budget process. We obtained the updated cash flow forecast in March and we are currently in the process of reviewing this information and therefore have not yet been able to conclude our work in this area.
- During our August/September visit we requested evidence of assets written off/disposed of during the year but to date we have only received partial evidence. During accounts preparation the items were identified as not being in the Council's possession and the previous interim Head of Finance had authorised for these items to be written off. The finance team provided us with a listing of assets transferred to Capita during the exiting of the 5Cs contract but we could not tie all of these items through to the list of items disposed/written off and we are still awaiting further evidence.

Other reporting issues

Other matters (continued)

Any significant difficulties encountered during the audit

- We identified a prior year adjustment in relation to the presentation of the Coastal Partnership income and expenditure that had not been reflected in the draft accounts. We requested the rationale and explanations at the end of September to support the new accounting treatment but we experienced some delays in obtaining this information as these amendments were made by the previous interim Head of Finance. Once we obtained the rationale from management in November, we identified a prior period error as the amendments were made prospectively and should have been made retrospectively and disclosed in the draft accounts. We recommended that management make the necessary amendments to the comparator figures and disclose the nature of the amendments in the notes to the accounts. We received extracts of the amendments made to the comprehensive income and expenditure statement but the amendments were not processed in the cash flow statement and the notes to the accounts. To date these further amendments are still outstanding.
- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures - *None*;
- Any significant matters arising from the audit that were discussed with management - *None*;
- Written representations we have requested – *Assurance letter responses from those charged with governance and the Monitoring Officer were requested in April but were only received in November and March respectively which prevented us from closing off on some of our audit procedures*;
- Expected modifications to the audit report - *None*;
- Any other matters significant to overseeing the financial reporting process - *None*;
- Related parties - *None*;
- External confirmations - *None*; and
- Consideration of laws and regulations - *None*.

We have no other matters to report at the time of writing this report. We will provide a further update if required at the meeting of the Governance, Audit and Finance Board on 24 March 2021

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We 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. We did not identify any issues.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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 Authority 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. As we have adopted a fully substantive approach, we have not tested the operation of controls.

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 considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



08 Data Analytics



Use of Data Analytics in the Audit

▶ Data analytics – Journal entries

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 2019/20, our use of these analysers in the Authority's audit included selecting samples for general income and expenditure testing, testing payroll costs, and identifying and focusing our journals testing on those entries we deemed to have the highest inherent risk to the audit.

We captured the data through our formal data requests and the data transfer took place on a secured EY website. The transfer methodology is 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 obtained downloads of all of the Authority's financial ledger transactions posted in the year. We performed 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 reviewed and sorted transactions, allowing us to more effectively identify and test journals that we considered to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also used our analysers in our payroll testing. We obtained all payroll transactions posted in the year from the General Ledger and performed completeness analysis over the data and procedures to understand the data and identify unusual items. We also reconciled the GL amount to the payroll subledger. We then analysed the data against a number of specifically designed procedures.



09

Independence

Confirmation and analysis of Audit fees

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 17 September 2020. We complied with the APB Ethical Standards. 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 that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance, Audit and Finance Board on 24 March 2021.

Our fees below do not include the scale fee review which is currently underway with PSAA to agree whether the scale fees for Local Government need to be rebased to account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. There is now greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. Discussions with PSAA remain ongoing, see page 40 for further detail.

As part of our reporting on our independence, we set out below a summary of fees for the year ended 31 March 2020. We confirm that we have not undertaken non-audit work. Since 2018/19 we are no longer the reporting accountant for Housing Benefit Subsidy certification

	Final Fee 2019/20	Planned Fee 2019/20	Scale Fee 2019/20	Final Fee 2018/19
	£	£	£	£
Total Audit Fee – Code work	TBC*	57,564	36,036	84,574
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 40)	34,998			N/A
Non-audit work – Grant claims	N/A	N/A	N/A	27,733
Total fees	TBC*	57,564	36,036	112,307

Confirmation and analysis of Audit fees (continued)

* The final fee for our Code work will be confirmed upon completion of the audit. We will assess the level of additional fees which we will propose and discuss these with management as soon as possible and we will report the final fee to the Governance, Audit and Finance Board in our final Audit Results Report. For 2019/20, the final fee has been impacted by a range of factors which has resulted in additional work and additional audit effort. We set out an estimate of the potential additional fee for this below which we will discuss with the Director of Corporate Services and is subject to approval by PSAA:

- The need to engage EY Real Estate to review a sample of valuations of investment properties and EUV assets, 16 assets in total, c.£15,000 (included in planned fee above)
- Review of additional disclosures that were required in relation to going concern, c.£2,500 (included in planned fee above)
- Additional work that will be required to address the value for money risks identified, c.£3,528 based on prior year (included in planned fee above)
- The preliminary work undertaken on group accounts. 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, c.£500 (included in planned fee above)
- Significant difficulties encountered during the audit process as highlighted in section 6 above, additional fee to date £10,172
- Additional work undertaken on aspects of housing benefit income and expenditure which would previously have been performed as part of HB certification, £382 based on prior year. 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. The detail of this work is as follows:

Module 2:

Establishing that the system parameters had been appropriately updated to ensure the correct calculation of benefit awarded.

Module 5 - Ensuring that:

- (1) The system has been upgraded to the latest subsidy software, therefore, correctly producing figures for the subsidy claim - including supplementary adjustment reports - which is the basis of the annual income and any dr/cr compared to payments on account.
- (2) Reconciliation of the draft claim form to the Financial Statements.
- (3) The system has been balanced, and benefit awarded can be reconciled to (a) the subsidy claimed, and (b) reconciles to the general ledger and financial statements of the authority recording the expenditure recognised for the year.

This work was undertaken by audit staff, with supervision from the audit senior

Confirmation and analysis of Audit fees (continued)

Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees ([PSAA fee consultation](#)), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond ([Redmond Review](#)) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 5 October 2020 (delayed from March 2020 due to the impact of the coronavirus pandemic)

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of managements comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us, although we did not reach agreement.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, 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 the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 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 fee table above includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the fee table above has been provided on a contingent fee basis.

As at the date of this report, we are contracted to provide audit services for a further three years from 1 April 2020.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf



10 Appendices

Appendix A

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
 Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Governance, Audit and Finance Board 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 - September 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - September 2020
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Draft Audit results report – March 2021

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Draft Audit results report – March 2021
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Draft Audit results report – March 2021
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Governance, Audit and Finance Board where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	To be confirmed with letter of representation at the next Governance, Audit and Finance Board meeting
Fraud	<ul style="list-style-type: none"> • Enquiries of the Governance, Audit and Finance Board to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Governance, Audit and Finance Board responsibility. 	<p>Draft Audit results report – March 2021</p> <p>We have no matters to report at this stage</p>

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Draft Audit results report – March 2021 We have no matters to report at this stage
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence • Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. 	Audit planning report - September 2020 Draft Audit results report – March 2021

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Governance, Audit and Finance Board into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance, Audit and Finance Board may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Draft Audit results report – March 2021

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Draft Audit results report – March 2021
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Draft Audit results report – March 2021
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor’s report 	Draft Audit results report – March 2021
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report - September 2020 Draft Audit results report – March 2021

Management representation letter

Provisional Management Rep Letter

Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of Havant Borough Council ("the Council") for the year ended 31 March 2020. 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 Council financial position of Havant Borough Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council.

2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.

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

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [*specify reasons for not correcting misstatement*]

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

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

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

Management representation letter

Provisional Management Rep Letter

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, 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, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

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

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic

3. We have made available to you all minutes of the meetings of the Full Council and 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: *[list date]*.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

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

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter (29 July 2020) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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

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

Management representation letter

Provisional Management Rep Letter

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

E. Subsequent Events

1. Other than as described in Note 29 to the financial statements, there have been no events, including events related to the COVID-19 pandemic subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information the Narrative Statement and the Annual Governance Statement.

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

G. Going Concern

1. Note 29 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Ownership of Assets

1. 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.

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

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

I. Reserves

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

J. Use of the Work of a Specialist - Actuary

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of the net pension liability 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.

K. Use of the Work of a Specialist – Property Valuers

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investment property and operational land and buildings 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.

L. Estimates

NNDR appeals and other provisions estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2019/20.

2. We confirm that the significant assumptions used in making the estimate of provisions (including the NNDR appeals provision) appropriately reflect our intent and ability to carry out providing services on behalf of the entity

Management representation letter

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3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

Valuation of investment property and operational land and buildings estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the estimate of valuation of investment property and operational land and buildings appropriately reflect our intent and ability to use and maintain these assets on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic

Pension Valuation Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2019/20.

2. We confirm that the significant assumptions used in making the estimate of pensions valuations appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic

M. 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,

Lydia Morrison – Director of Corporate Services (S151 Officer)

Councillor Tony Briggs- Chair of the Governance, Audit and Finance Board

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