



# Havant Borough Council

Auditor's Annual Report  
Year ended 31 March 2021

04 August 2022



**EY**

Building a better  
working world

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

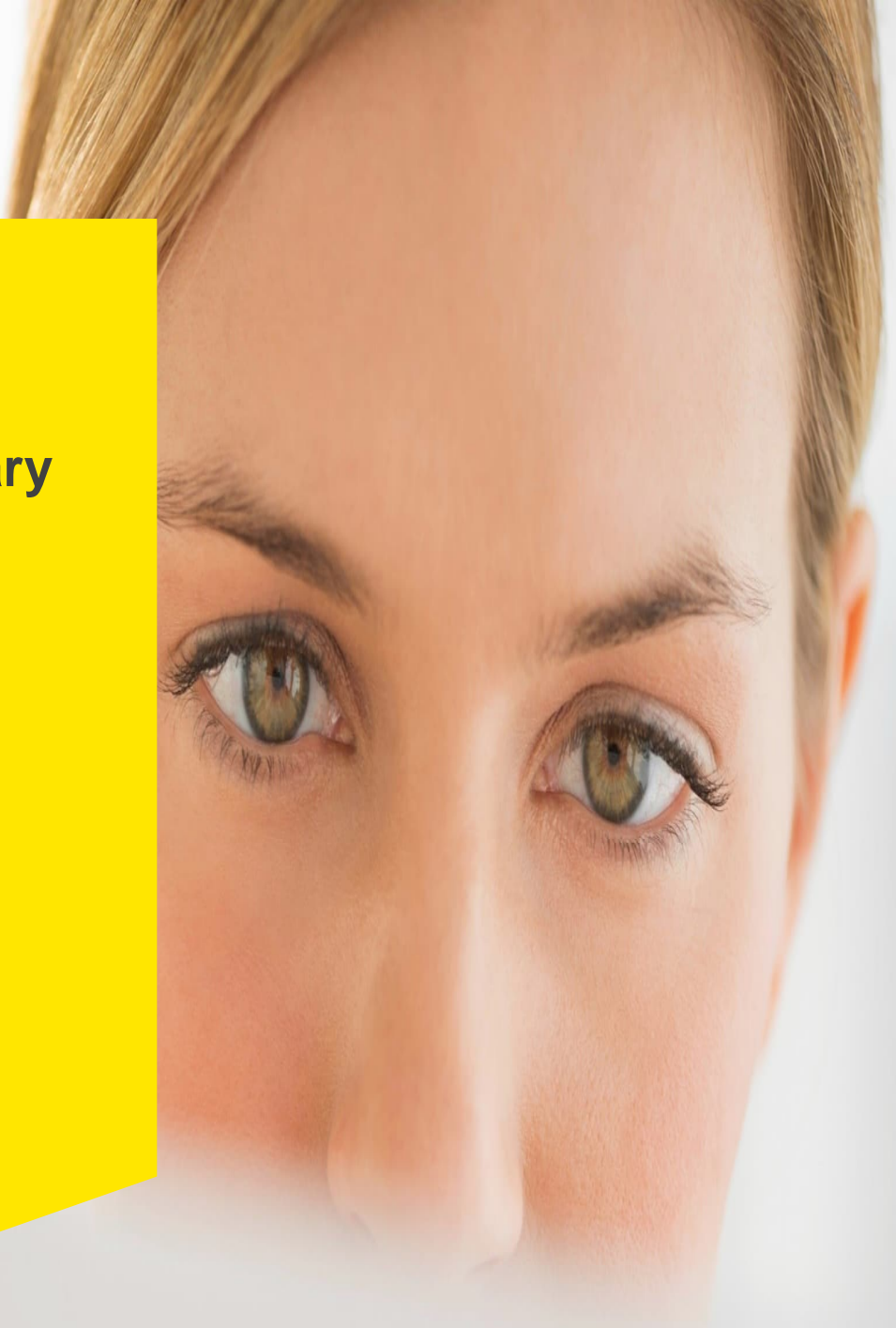
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure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

This report is made solely to the Audit and Finance Committee and management of Havant Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Finance Committee and management of Havant Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Finance Committee and management of Havant Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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

Section 1

# Executive Summary



## Executive Summary: Key conclusions from our 2020/21 audit

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

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

# Executive Summary: Key conclusions from our 2020/21 audit

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

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 19 July 2022 to the Audit and Finance Committee on 28 July 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 was delayed. We will liaise with the Council to complete this work.

## Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Chief Finance Officer. We include details of the audit fees in Appendix 1.

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

Kevin Suter

Partner  
For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities



# Purpose and responsibilities

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

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## **Purpose**

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

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we presented to the Audit and Finance Committee on 27 April 2022. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

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

Reporting by exception:

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

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

# Financial Statement Audit





# Financial Statement Audit – Havant Borough Council

## Key issues

We issued an unqualified audit opinion on the Council's 2020/21 financial statements on 29 July 2022.

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

We issued an unqualified opinion on the financial statements. We reported our final Audit Results Report to the 28 July meeting of the Audit and Finance Committee. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

## Significant risk

## Conclusion

### **Misstatements due to fraud or error - management override of controls**

An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We did not identify any:

- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied; or
- any other transactions during our audit which appear unusual or outside the Council's normal course of business.

### **Inappropriate capitalisation of revenue expenditure**

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We identified opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.

In response to the risk we tested capital additions to ensure that the expenditure incurred and capitalised was clearly capital in nature.

We identified no instances where expenditure had been inappropriately capitalised. However, during our testing of additions we did identify an overstatement of £117k relating to professional fees capitalised in the incorrect financial year. We considered this to be an error, and not caused by deliberate misstatement. Management opted not to correct the accounts for this misstatement on the basis of immateriality.

Continued over.

## Financial Statement Audit – Havant Borough Council (continued)

Significant Risk	Conclusion
<p><b>Valuation of investment property</b></p> <p>The fair value of Investment Properties represent a significant balance in the Authority's accounts and are subject to valuation changes and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balance recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. We made use of our own professionally qualified valuation specialists to support our work in this area.</p>	<p>One misstatement was identified in relation to Basepoint Brambles Plot 8 where the income figure used by the external valuer was incorrect resulting in an overstatement of £437k. We identified one further error where the asset register was not updated with the valuation for 2020/21 for Warblington Castle Farm resulting in an overstatement of £305k. Management corrected the accounts for these issues</p>

## Financial Statement Audit – Havant Borough Council (continued)

Other area of audit focus	Conclusion
<p><b>Valuation of operational Land and Buildings</b></p> <p>The fair value of Property Plant and Equipment represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We reviewed the work performed by a review of the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. We sample tested a selection of assets.</p> <p>Our work in this area identified the following errors:</p> <ul style="list-style-type: none"> <li>• The valuer used a comparable market value from amenity land for the calculation of community centre land values and we do not believe this is an appropriate comparison and resulted in an understatement of land values of £940k. Management opted not to correct the accounts for this misstatement.</li> <li>• during our work on valuations we identified completeness issues with the fixed asset register. Management undertook a reconciliation exercise between the fixed asset register, and other sources of property information. This resulted in a long list of assets that were inconsistent between the two sources;</li> <li>• We tested a sample of these assets to ensure that where amendments were identified these were correct, and also tested where the council asserted the items should not be in the accounts or had £nil value. Through this exercise a net understatement of £441k was identified which management corrected.</li> <li>• We identified incorrect classifications and valuation methods on the fixed asset register, although the actual classifications and valuation methods applied to the asset valuations were correct. We recommended that management update the asset register to reflect the correct classification and valuation method for all assets.</li> </ul>
<p><b>Pension liability valuation</b></p> <p>The Pension Fund liability is a material balance in the Balance Sheet. 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.</p>	<p>We obtained assurances from the auditors of Hampshire Pension Fund that the information supplied to the actuary in relation to Havant Borough Council was accurate and complete.</p> <p>An adjustment of £183k was required as a result of our work to reflect the Council's share of the difference between the estimated value of Pension Fund assets the final audited value.</p> <p>We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate, and the assumptions were reasonable.</p>

## Financial Statement Audit – Havant Borough Council (continued)

Other area of audit focus	Conclusion
<p><b>Going concern disclosures</b></p> <p>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>Our review of management's continued use of the going concern assumption concludes it remains appropriate. We reviewed the proposed going concern disclosures for inclusion in the financial statements and proposed relatively minor updates which management made. In our view no significant uncertainty exists that may cast doubt on the Council's ability to continue as a going concern, which would be required to be disclosed.</p> <p>The key issues we reflected on for our assessment relate to a combination of the Council's liquidity and its level of General Fund reserves. Management's assessment demonstrates that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital.</p>
<p><b>Accounting for Covid-19 related grant funding</b></p> <p>The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.</p>	<p>Where the Council acted as principal, because it has the control over the allocation of the funding to the beneficiaries of these grants then these should be processed through the Comprehensive Income and Expenditure Statement (CIES).</p> <p>For those grants received where the Council is acting as an agent – passing on the funds without any discretion - we would not expect these to be processed through the (CIES) but would expect to see the amounts received disclosed in the notes to the accounts.</p> <p>Based on the work performed we were not satisfied with the accounting treatment adopted for some of the Covid-19 related government grants as the draft accounts classified the Additional Restrictions Grant and the Local Restrictions Support Grant on an agency basis. Local councils have the freedom to determine the eligibility criteria for these grants, therefore, they should be recognised as a principal grant within the income and expenditure of the Council. By treating these on an agency basis the Council only recorded the receipts within the disclosure notes of the draft accounts and not in the CIES. The grants totalled £1.6m and management amended the accounts.</p>

# Financial Statement Audit – Havant Borough Council (continued)

## Audit differences

Other than the differences identified above, we also identified the following misstatements which management have corrected:

- Debtors – £245k held as a credit to debtors has been reclassified to creditors;
- Housing Benefit Overpayment - £813k relating to overpayment of Housing Benefit was held as income rather than netting off within expenditure
- Reclassification of Infrastructure assets to OLB (£668k), VPE (£344k) and AUC (£290k), due to being incorrectly classified as infrastructure
- A relatively high number of errors and misstatements in disclosures ranging from casting errors to incomplete and missing disclosure notes, prior year figures and financial years not being updated, incorrect descriptions, formatting errors and incorrect referencing.

## Our application of materiality

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

Item	Thresholds applied
<b>Planning materiality</b>	We determined planning materiality to be £1.448m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
<b>Reporting threshold</b>	We agreed with the Audit and Finance Committee that we would report to the Committee all audit differences in excess of £0.072m.

Section 4

## Value for Money



# Value for Money (VFM)

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

## Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment, completed and issued in November 2021, to the 27 April 2022 Audit and Finance Committee meeting, which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

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

## Reporting

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

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

## VFM Commentary

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

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

## Introduction and context

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

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

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

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

Our commentary relates to the year-ended 31 March 2021, and does not significantly take into account the subsequent decision by the Council to separate it's joint working with East Hampshire District Council although we reference this decision and future impact in places.

## Financial sustainability

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

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

Arrangements took into account the impact of the Covid-19 pandemic.

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Risk areas are identified via regular monitoring and review as part of budget setting. These are built into the Medium Term Financial Strategy (MTFS) as appropriate. The MTFS is reviewed annually as part of the budget setting exercise. Assumptions are made on reductions on government funding, staffing inflation costs, other inflationary pressures and contract uplifts as well as any known service cost increases, such as additional expenditure on producing the Local Plan. The MTFS is a 5-year projection of net expenditure and funding sources with gaps highlighted, usually as a result of reduced funding from central government.

As a result of the financial gap going forward a transformation programme was initiated to look at a new operating model in order to deliver the right services for residents and reducing costs where possible. The Council's transformation programme will review all areas of the Council looking at best ways for future delivery. Savings will be incorporated into future MTFS planning and budgets as they materialise.



## Financial sustainability (continued)

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

The Council's transformation programme is regularly reported to Members. Although gaps are identified in the latest MTFs, the aim is to make good the gaps via transformation. Transformation will still happen post changes in working announced in January with East Hampshire DC, and the Council is looking to ensure this is tailored to the needs of Havant Borough Council.

Additionally, a Budget working group has been set up as part of the budget setting papers in order to review the base budgets and look for savings in the short term.

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

The Budget Working group has been established as part of the 'Credible Plan' response to the future financial risks highlighted by the s151 officer including from the intention to end the joint management arrangements with East Hampshire District Council.

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

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Funding gaps are addressed through the Council's transformation programme as well as a Budget working group

The Council recently updated its Corporate Strategy and a new document was approved alongside the budget in February 2022. The new Corporate Strategy sets out the key strategic priorities and gives a timeframe for delivery. The new strategy is aligned to the transformation programme aspirations and agreed budget. As part of the transformation programme services have been reviewed and placed in one of 4 categories, based on efficiency and priority: Invest to Save, Invest to Improve, Incremental Cost Reduction and Urgent Action. The aim is to target resources to the highest priority group and move resources away from the lower priority services. This work will be done by the established budget working group which forms part of the 'Credible Plan' response to the budget of 2022-23, which includes the Terms of Reference for the budget working group.

## Financial sustainability (continued)

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

These are considered as part of the budget setting work. The transformation programme has identified areas to review and these are done holistically within the areas of service delivery. Any papers coming forward which contain changes to operations or proposed agreement to new strategies are subject to a review and sign-off by firstly legal and finance officers and secondly by the Monitoring Officer and Section 151 Officer. Papers have a specific section on 'Additional Budgetary Implications' where details of any changes in budget requirements are outlined. The papers have detailed guidance which sets out what financial information is expected to be included and this is reviewed as above by finance officers and then signed off by the Section 151 Officer.

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

Finances link to the Corporate Strategy, transformation programme and other organisational plans.

The capital programme is approved as part of the budget setting process. Any new capital bids that come in during the year are subject to completion of a business case and review prior to being added to the approved Capital programme. Likely new capital bids are highlighted each year through the budget setting exercise and shown within the budget papers.

Partnership budgets are agreed alongside the annual budget, any changes to partnership budgets would require the necessary report and approval. Partnership budgets are monitored through the regular budget monitoring process.

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

Identified risks are considered at Executive Board and, where appropriate, at cabinet liaison. Unplanned risks, such as the pandemic, are monitored and compensating savings or use of earmarked reserves considered as appropriate. During the pandemic a full budget review exercise was undertaken to identify budget savings in year as a result of changes in activity to respond to the pandemic. The savings which were identified during this exercise were used to cover reduced income and increased pandemic spending. Councillors were kept up to date by regular reporting of financial performance.

If required, financial resilience reserves are also available to be utilised at short notice.

## Financial sustainability (continued)

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

Regular monitoring and reporting manages risks, including from the pandemic.

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The Council commissioned a report on financial resilience from CIPFA, in light of the intent to exit the joint management team arrangements with East Hampshire District Council. This report concluded there were adequate resources for future plans and service redesign. However, the report highlighted some significant risks in this regard which the Council will need to mitigate against. This includes the financial impacts and the need to provide a detailed proposal for the use of transformation reserves. This activity is taking place after the year to which our assessment relates and does not indicate, any significant weakness for the year to 31 March 2021. We note this issue because it is a major development for the Council, and we will reflect on it further for our risk assessment and conclusion on financial sustainability in subsequent audit periods. Based on current evidence, the Council is responding to the concerns raised by the CIPFA review.

## Governance

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

Internal Audit (IA) have a programme of audits covering a number of areas across the organisation, in particular finance, in order to provide independent assurance. IA provides quarterly progress updates to the Audit and Finance Committee. For 20/21 the IA opinion was “Havant Borough Council’s framework of governance, risk management and control is ‘Reasonable’ and audit testing has demonstrated controls to be working in practice.”

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

Risk management is an integrated process with everyday management of the Council. Processes were amended during the pandemic, focusing on the Council’s response and recovery.

Good arrangements are in place for Internal Audit, and to counter fraud.

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In addition, Corporate Governance Board (officers only) review all Internal Audit Management Actions and track progress at quarterly meetings in order to ensure actions are progressed in a timely manner. Outstanding management actions are reported through both the Internal Audit Quarterly Reports to Audit and Finance Committee as well as the Quarterly Performance Dashboard reported to all Members and published on the website.

The Council has an Anti-fraud and Corruption Policy including a response plan: <https://havant.moderngov.co.uk/ecSDDisplay.aspx?NAME=SD953&ID=953&RPID=1964019>

The full suite of Governance policy can be viewed at: <https://havant.moderngov.co.uk/ecCatDisplay.aspx?sch=doc&cat=14206>

In addition the Annual Governance Statement (AGS) undertakes a questionnaire each year with staff which informs the production of the document. The AGS also provides a full narrative of Governance matters and where to find information. The AGS is reviewed by the Audit and Finance Committee.

## **Governance (continued)**

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

The annual budget setting process follows a set timetable each year. Draft budgets are shared with Heads of Service and budget holders to review to identify pressures and savings and are then further scrutinised during the approval process.

The budget is reviewed by Cabinet, all Members are briefed, Overview and Scrutiny then have the opportunity to review and consider prior to final review by Cabinet and approval by Full Council.

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

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

Annual budgeting processes are appropriate, and effective arrangements are in place to manage the budget through the year.

The Council monitors both financial and non-financial performance through the quarterly reporting process. Each month budget holders are sent a request to complete their forecast for year-end spend against budget. At each quarter end a thorough review is undertaken by budget managers and finance business partners resulting in quarterly financial reporting provided to Councillors. In addition, non-financial information at quarter end is requested, for example progress against business plans and key performance indicators. This information, alongside the financial information forms the quarterly report pack of information. Reports are provided to Cabinet and Audit Committee to review progress and uploaded onto the Council's website.

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Cabinet is presented with a pack of information including budget, spend to date and forecast outturn as well as progress against business plan and key performance indicators. This allows for Cabinet members to ask questions and review the latest performance, both financial and non-financial information.

Audit and Finance Committee are presented with the same information as Cabinet and allowed the opportunity to further review and ask questions to the Section 151 Officer and Finance Cabinet lead.

At year end a full narrative outturn report is produced as part of the year end accounts process and these are provided to Audit and Finance Committee in both draft and final form.

## **Governance (continued)**

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

The Constitution, including the Schemes of Delegation, sets out how different decisions are made, including who has responsibility for making them and what procedures should be followed. The Constitution was thoroughly reviewed and updated in 2020/21.

The authority operates through a Leader and Cabinet model with a scrutiny function in place to scrutinise decisions made or call in potential decisions. Scrutiny sets out its work programme and reviews the work programme at each meeting.

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

The Authority has report templates and guidance to ensure authors cover all the requirements to enable a decision to be made; they include options appraisal (if required), cost and risk analysis in addition to key signatories such as legal and finance and must include the relevant Cabinet lead. All reports require sign off from the Section 151 Officer, Monitoring Officer and relevant Cabinet lead, in addition, prior to sign off, a review of the report is undertaken by legal and finance officers to ensure that financial and legal implications are fully considered.

Decisions are made following the Constitution, considering legal and financial responsibilities.

All Key Decisions are published prior to being made and included on the Council Forward Plan which is published and updated regularly for review by any Councillor or member of the public.

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All decision-making meetings are held in public and decisions made are published in line with the statutory legal requirements, although some items are considered exempt due to commercial nature. Minutes of all Council meetings are made available to the public and members of the public have the opportunity to contribute to Council meetings.

All decision are subject to scrutiny and can be called into Overview and Scrutiny if required.

## **Governance (continued)**

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

The Authority has a Standards Committee which meets regularly.

The role of the Standards Committee is to promote, sustain and safeguard the behaviour of members within the Council and the probity of all the Council's proceedings.

Full details on its roles and responsibilities can be found in the Council's constitution.

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

Appropriate arrangements are in place to ensure the Council meets appropriate standards in behaviours.

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There are a number of policies such as code of conduct, councillor/officer relations and gifts and hospitality guidance – all these documents can be found on the Council's website.

Any concerns or issues with respect to legislative/regulatory requirements would be raised with Human Resources, Data Protection Officer and/or Monitoring Officer for review and consideration. Advice would then be provided, steered by the policy in place as to the route to take in terms of disciplinary or report to Standards Committee. Complaint procedures are in place which can also be utilised if necessary, and if required complaints can be escalated to Local Government Ombudsman. The Corporate Governance Board is in place to consider issues around legislative or regulatory failings and has standing items covering updates from Head of Organisational Development (HR), updates from the Data Protection Officer and updates on current number of Local Government Ombudsman complaints.

All new employees to the authority are briefed as part of their induction into the various policies and procedures around Code of Conduct and this is also included in the Councillor induction.

In accordance with the Local Government Transparency Code 2015 details of any information with respect to counter fraud work are published on the Council's website.

## **Improving economy, efficiency and effectiveness**

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

The Council monitors both financial and non-financial performance through the quarterly reporting process. Reports are provided to Cabinet and Audit and Finance Committee to review progress and uploaded onto the Council's website.

The budget monitoring and performance report highlights areas for improvement and considered actions. For example, any area that is forecasting an overspend, narrative is supplied as to the reasoning and appropriate mitigations that are in place. In addition a corporate wide response by the finance terms is considered as to any actions that are required to reduce any potential overspend. When the reports are reviewed by Executive Board consideration is given as to what actions can be further taken to mitigate any potential overspends. The same process applies for non-financial performance, whereby those measures and action plans that are not achieving as intended are given a RAG (red/amber/green) rating with supporting commentary about how to move towards an improved position.

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

Financial and performance information are used to assess services.

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

As above – any budgets that are forecast to vary from budget are highlighted in the quarterly report with supporting commentary and the performance report includes a RAG of Corporate Action Plan progress and key performance indicators and identifies where improvement actions are being taken

A year end summary of performance is provided as part of the outturn report and Annual Statement of Accounts.

In addition, resident surveys are held occasionally to gain insight and feedback on performance of the council from a residents perspective. This information is then fed into the corporate planning cycle. The most recent residents survey has focused on the council response to the pandemic and the results can be found here:

<https://www.havant.gov.uk/coronavirus-residents-survey>

Businesses are also regularly contacted and engaged through our Economic Development team with a range of support provided, see

<https://www.havant.gov.uk/businesses>



## **Improving economy, efficiency and effectiveness (continued)**

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

The Council undertakes regular performance monitoring, which goes to members quarterly. This is integrated with the financial monitoring and issues of concern are reviewed and actioned where improvement is required.

The Council maintains a list of its significant contracts and this includes its partnerships.

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

Major contracts, such as Norse South East and Capita have dedicated officers who monitor and report on performance of those partnerships. Performance is reported either through existing mechanisms within each partnership model and/or through the regular quarterly performance monitoring process as articulated above. Where necessary, for example with Norse, senior officers are appointed to sit on the appropriate Board in order to monitor performance. The Coastal Partnership, led by Havant, has a dedicated Head of Service who oversees and reports how the partnership is performing.

The Council has a range of partnership arrangements, which are quarterly reviewed.

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Partnership governance is also reviewed by Internal Audit through its regular audit programme and also reported within the Annual Governance Statement.

## **Improving economy, efficiency and effectiveness (continued)**

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council employs a Procurement team to assist with carrying out procurement processes and ensuring they met the relevant legislative and professional standards of procurement.

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

Procurement arrangements are appropriate, and contracts are managed after the procurement process.

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Services are required to liaise with the procurement team when undertaking significant purchasing decisions and ensure that the right process is followed. The procurement team provide guidance on templates to be completed. An electronic system for ordering or requesting quotes or tenders for any goods or service over £10,000 in value is in place and this is done through the PROACTIS ProContract Portal. This system provides user guides and ensures that relevant legislation, standards and processes are followed accordingly.

Details of contracts are published online, and major contracts consist of Capita (IT, Revenue & Benefits and Customer Services) and Norse (environmental waste services).

Rules on providing goods and services are published on the Council's website and included within the constitution in terms of delegated authority to spend monies. Regular reporting of Council spend over £500 is published as required. The Council publishes information on its website on many areas of Council spend to demonstrate to its residents how council tax payer's money is spent.

Once a contract is in place an officer or team will be responsible for ensuring that it achieves against its original aims. For the large contracts these are monitored as described above in terms of council performance reporting and individual mechanisms established to monitor performance within each contract, for example, the Capita contract has a series of key performance indicators which are monitored through the Client Relationship Team and reported through the Client Relationship Director. Regular meetings will be held between the relevant contract manager and partner to review performance and if required poor performance is escalated, firstly through the contract mechanisms and secondly through the reporting of performance to Executive Board and/or Cabinet.

Internal Audit as part of their programme of work would routinely look at contract procurement and/or contract performance.



Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

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

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

### **Whole of Government Accounts**

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 has only recently been issued and we will liaise with the Council to complete this work.

### **Report in the Public Interest**

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

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

### **Other powers and duties**

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

### **Control Themes and Observations**

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

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

Our audit identified the following control issues to bring to the attention of the Audit and Finance Committee:

- The Council disposed of land at Brockhampton during the year, but this was not included on the asset register. The rationale provided was that this land had £nil value, and hence didn't require recording. As the asset was not included on the asset register, the Council were unable to undertake the appropriate accounting considerations under the Code regarding the financial reporting. It was unable to demonstrate considerations of transfer to Assets Held for Sale when the relevant criteria were met, and the Code's requirement of an immediate valuation and assessment of its appropriate carrying value until disposal;
- Sampling of debtor and creditor balances was impeded by the Council being unable to provide clean listings of the amounts on the balance sheet as at 31 March 2021. Listings often contained opening balances and movements during the year, not the final balances. The lack of clean listings impeded the efficiency of the audit as it took time to provide listings, and when provided samples often had to be returned and replaced because the items were not debtor or creditor balances as at 31 March. The wider implication is that if listings cannot be provided for the audit process, there may be further weaknesses in the Council's ability to manage its creditors and debtors.

Appendix A

## Audit Fees



## Audit Fees – Havant Borough Council

The scale fee for 2020/21 is in line with the audit fee reported in our Audit Plan and Audit Results Report. Included below are details of the proposed additional fees for 2020/21.

We undertook no non-audit work.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
<b>PSAA Scale Fee</b>	36,036	36,036	36,036
Proposed scale fee rebasing (Note 1)	35,813	34,998	49,796
Other proposed fee variation (Note 3)	29,744	26,382	(Note 2)
Value for money work (Note 4)	6,069	-	-
Impact of new accounting requirements of ISA 540 (Note 4)	2,847	-	-
<b>Total Fees</b>	<b>110,509</b>	<b>97,416</b>	<b>85,832</b>

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed in 2019/20 that the recurrent cost of additional requirements to carry out our audit should increase by £34,998. We have continued to include this increase at the same audit inputs, adjusted for any aspects no longer relevant to the rebasing, but updated for PSAA's 25% increase in the scale fee variation fee rates for 2020/21.

Note 2 – Together with the rebasing proposal, for 2019/20 we submitted a variation of £40,639. PSAA determined both together, for the total of £49,796.

Note 3 – We propose an in-year variation of £29,744 for issues encountered during the audit, as set out in this report including investment property and other land and buildings valuations, going concern disclosures, accounting for covid-19 related grant income and significant difficulties experienced during the audit.

Note 4 – We have also included variations for new Code and ISA requirements, based on the lower end of PSAA's communicated expected ranges. This relates to PSAA's published 'Additional information for 2020/21 audit fees' in August 2021. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes for requirements relating to the new VFM requirements under the NAO's 2020 Code of Audit Practice (£6k - £11k), and the revised auditing standard on estimates ISA540 (minimum £2.5k).

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