



Havant Borough Council

Audit progress update

October 2023



Havant Borough Council
Audit and Finance Committee
Public Service Plaza
Civic Centre Road
Havant
PO9 2AX

13 October 2023

Dear Audit and Finance Committee Members

Audit Progress Report

Pleased find below our Audit Progress Report.

The purpose of this report is to provide the Audit and Finance Committee with an overview of the current status of the Council's audit status for 2021/22. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audits.

Yours faithfully,

Kevin Suter

For and on behalf of Ernst & Young LLP

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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.



01

Progress Update – Financial Statements of the Council

Status of the audit

2021/22 financial statements

Our audit planning report, issued in March 2023 identified the key areas of focus for our audit of the Council's 2021/22 financial statements. These have not changed as of the date of this progress report. This report sets out any observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised below.

Fraud Risk	Findings & Conclusions
Misstatements due to fraud or error	<p>Our work in this area is well progressed. To date we have not identified 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. The remaining journal entries that we need to test are those that were processed between the initial draft statement of accounts, which did not contain the property valuation adjustments, and the final draft.</p>
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	<p>Our sample testing of additions to Property Plant and Equipment (PPE):</p> <ul style="list-style-type: none"> • Found costs had been correctly classified as capital and included at the correct value. • Did not identify any revenue items that were incorrectly classified as capital. <p>Our review of judgements taken by management found them to be reasonable.</p> <p>We also tested a sample of Revenue Expenditure Funded from Capital under Statute (REFCUS) and identified one item inappropriately classified as REFCUS relating to the installation of a new artificial bowls surface amounting to £166k. Management have agreed to process a correction to the statement of accounts.</p>
Significant Risk	Findings & Conclusions
Valuation of Investment Properties	<p>Our work in this area is well progressed.</p> <p>We have referred two properties to our internal property specialists (EYRE) and there assessment was that the property valuations were within a reasonable range. For the properties tested by the local team we identified differences in the yields used by the Council's external valuer compare to industry averages and we are currently evaluating these to determine the impact on the audit.</p> <p>We have one further investment property to test which relates to Warblington Farm.</p>

Status of the audit

2021/22 financial statements (continued)

Area of audit focus / Inherent risk	Findings & Conclusions
Valuation of Land and Buildings	<p>Our work in this area remains in progress as at 13 October 2023 and is still subject to Partner review.</p> <ul style="list-style-type: none"> Assets valued using Depreciated Replacement Cost (DRC) is substantially complete, no significant valuation issues identified to date. For assets valued on a Existing Use Value (EUV) basis, we referred a sample of car parks as well as Havant Bus Station to EYRE for further review as the inputs appeared inconsistent across the car parks valued by the external valuer and in our view the Havant Bust Station was valued using an incorrect methodology, i.e. EUV rather than a DRC valuation. Furthermore, the sample tested by the local team identified an incorrect income figure used in the valuation of Beach Huts. We are currently following this up with the external valuers and the Finance team.
Pension Liability Valuation (Inherent risk)	<p>Our planned work in this area is complete. We obtained assurances from the auditors of Hampshire County Council Pension Fund that the information supplied to the actuary in relation to Havant Borough Council was accurate and complete.</p>

The following items relating to the completion of our remaining audit procedures were outstanding at the date of this report:

- Debtors – one item pending from management in relation to debtors cut-off testing
- Creditors – three queries remaining relating to goods received but not invoiced, Solent Recreation Migration Strategy and Highways
- Grant income and capital grants and contributions – two queries outstanding relating to Additional Restrictions Grant and Community Infrastructure Levy
- Operating expenditure – housing benefits (HB) expenditure testing is nearing completion after recently receiving the outstanding HB reports
- Related party transactions – review of completeness of officers’ independence declarations
- Update of our subsequent events procedures to the date of our opinion
- Review of the final version of the financial statements
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

EYRE have provisionally scheduled additional time to review the abovementioned asset valuations in November, with a view to completing the audit by the end of December.



02

Progress Update – Value for Money



Value for money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit and Finance Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a requirement under the 2020 Code is for us to include the commentary on arrangements in the Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM planning

Our assessment for the Council of the risk of significant weaknesses in the arrangements supporting each of the specified reporting criteria is under way. Our assessment will focus on a combination of:

- Cumulative audit knowledge and experience.
- Review of Council committee reports,
- Review of other documentary evidence available on the Council's website.
- Consideration of financial and performance reporting and outcomes for the year.
- Regular engagement with Council management.

To date we have not identified a risk of significant weakness from our regular meetings with management or attendance at the Audit and Finance Committee.



03 Future audits



Future Audits

Responding to identified risks

Lee Rowley MP wrote out to s151 officers in July regarding the challenges in local authority financial reporting and auditing. A key aspect within that letter was advocating a system reset, with one of the methods being through the application of backstop dates for audits.

The letter set out that the aim was to provide as much assurance as possible for outstanding years, reporting as normal any significant concerns on an organisation's financial controls, financial reporting as well as financial resilience, governance and risk, together with ensuring the capacity of the sector is focused on the most recent position as soon as possible.

We are waiting for further guidance on this issue, which is not an individual issue just for us in EY or specific to you. It is a system-wide issue that requires significant actions to reset and create a sustainable future for the preparation and audit of local authority accounts. We hope this guidance may be available by the date of the committee meeting, and will provide a further verbal update.