Hampshire County Council & Hampshire Pension Fund Auditor’s Annual Report

Year ended 31 March 2022

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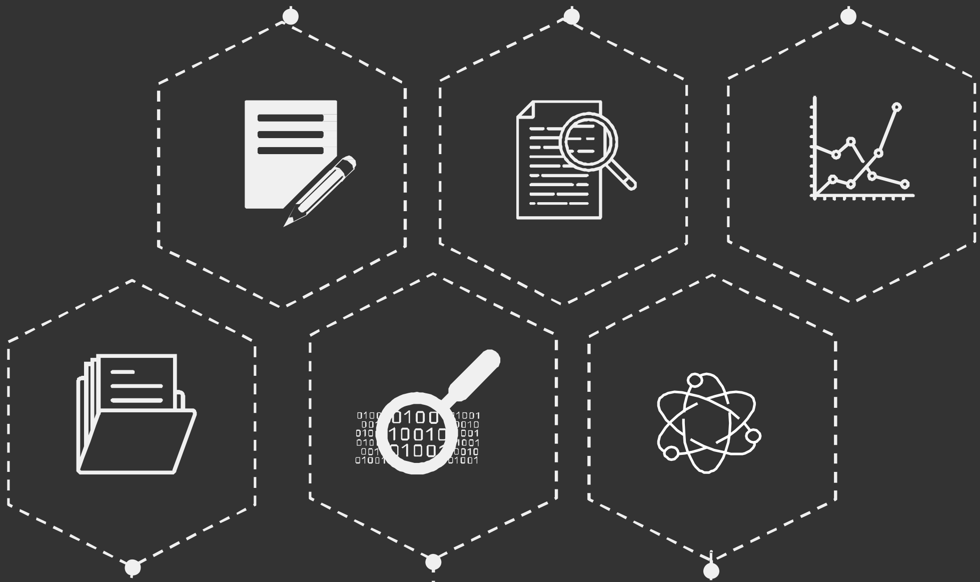

Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement 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 July 2021)” 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 Committee and management of Hampshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to Audit Committee and management of Hampshire County 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 Audit Committee and management of Hampshire County 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.

Introduction

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 value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, 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 2021/22 audit work in accordance with the Audit Plan that we issued on 6 May 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

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, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction (continued)

2012/22 Conclusions	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 29 September 2023.
Going concern	We have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund annual report and other information published with the financial statements	Financial information in the Pension Fund Annual report and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were 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.
Whole of government accounts	We have not yet been able to perform the procedures required by the National Audit Office on the Whole of Government Accounts submission.
Certificate	We have not yet issued our certificate for 2021/22 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission.

Audit of the financial statements

Key findings

The Narrative Statement 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.

On 29 September 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 27 September 2023 Audit Committee meeting. 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. We reported 7 internal control recommendations in the Audit Results Report.

Significant risk	Conclusion
Risk of fraud in revenue and expenditure recognition	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. The risk in local government is in areas where management make judgements that impact whether material items of expenditure are financed from capital or revenue resources. Our audit work has not identified any material issues or unusual transactions to indicate any misreporting of the County Council’s financial position.
Misstatements due to fraud or error	As identified in ISA (UK and Ireland) 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. Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error. Our work did not identify any instances of inappropriate judgements being applied. Our work did not identify any other transactions during our audit which appeared unusual or outside the Council‘s normal course of business. Our work did not identify any journal entries without a valid business purpose.
Infrastructure assets	We identified that the Council does not record infrastructure capital expenditure with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation. This means the Council would be unable to identify the cost and accumulated depreciation balances that need to be derecognised and as such assets could be materially overstated. This was a common issue in local authorities, and a Statutory Instrument was issued in December 2022 alongside an amendment to CIPFA’s Code of Accounting Practice, for authorities in this position. We were satisfied the Council applied the Statutory Instrument and the Code update appropriately, the accounting policies and disclosure notes are complete and accurate and that depreciation is not materially misstated.

Audit of the financial statements (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus:

Other area of audit focus	Conclusion
Valuation of land and buildings Land and buildings is one of the most significant balances on the balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.	We identified misstatements in the valuation of land and buildings which, when projected equate to £3m. This was not material and as such management did not adjust. We also identified misstatements in the valuation of investment properties which, when projected equated to £6.5m. This was not material and as such management did not adjust.
Pension liability valuation 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.	We completed our review of the accounting entries & disclosures and our review of the assumptions used by the actuaries. We were able to reconcile our roll forward with the figures provided by the actuary within 1% of the liability, which we judge to be acceptable. The net defined benefit liability had originally been recorded based on the 31 March 2022 IAS 19 valuation report which uses the 2019 triennial valuation assumptions. During the period of finalisation of the 2021/22 audit, the 2022 triennial valuation report has been issued and therefore the impact of this needed to be considered by both management and the audit team. The revised IAS 19 report showed that the net pension liability reduced by £239m. As this was material, management adjusted for this within their 2021/22 Accounts. We performed further procedures on the revised IAS 19 report and no issues were identified.
Private finance initiatives The Council has two PFI/service concession arrangements in place, in respect of waste and street lighting, with liabilities amounting to £129 million in 2021/22. These were both operational and recognised in the Council's balance sheet as at 31 March 2022.	We did not identify any issues in our testing of the waste PFI. We identified there were differences in the street lighting PFI in relation to the contingent rental calculation with an impact of £4m to the CIES. This was not adjusted by management as it is not material.

Audit of the financial statements - Pension Fund

Key findings

On 29 September 2023, we issued an unqualified opinion on the financial statements of the Pension Fund. We reported our detailed findings to the 27 September 2023 Audit Committee meeting. 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. We reported 7 internal control recommendations in the Audit Results Report.

Significant risk	Conclusion
Misstatements due to fraud or error	As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. We 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. Our journal testing did not identify any journal entries without a valid business purpose. We did not identify any other transactions during our audit which appeared unusual or outside the normal course of business. We identified no unexplained differences between the fund's investment values provided by the custodian or fund managers, to those presented in the financial statements.
Valuation of complex investments (level 3 fair value hierarchy)	Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data. Significant judgements are made by the Investment Managers or administrators to value these investments and market volatility means such judgments can quickly become outdated. Our testing has not identified any issues with the judgements used in the valuation of level 3 investments.

Audit of the financial statements – pension fund (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus:

Other area of audit focus	Conclusion
Valuation of non-quoted pooled investments (level 2) The Pension Fund's investment valuations are classified into three levels, according to the quality and reliability of information used to determine fair value. As at 31 March 2022, Hampshire Pension Fund held a significant balance of non-exchange traded pooled funds which are classified as Level 2. Assets at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.	Our testing has not identified any issues with the judgements used in the valuation of level 2 investments.
Valuation of directly held property Directly held property are valued at level 2 in the fair value hierarchy, and subject to valuation changes. Material judgemental inputs and estimation techniques are required to calculate the year-end valuation	Our testing has not identified any issues with the judgements used in the valuation of directly held property.

Value for Money

We identified 1 risk of significant weakness in the Council's VFM arrangements for 2021/22.

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

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

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the May 2022 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the CFO and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures in September 2023 and did not identify any significant weaknesses in the Council's VFM arrangements. We identified a significant risk related to Financial Sustainability as part of our risk assessment procedures. We set out our planned response in our Audit Plan. We reported this matter by exception in the audit report on the financial statements and provided further details in the Audit Results Report.

Our commentary for 2021/22 is set out over pages 10 to 14. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

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

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	We identified a risk around the arrangements that the Council has in place in relation to financial sustainability – including the impact of Covid-19 on the medium term financial planning.	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
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	No significant risks identified	No significant weaknesses identified

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Arrangements during the financial year

2021/22 has been an extraordinary year for the Council, with the Covid-19 pandemic providing a number of financial challenges initially during 2020/21 but also having a significant impact upon the review and development of the Medium-Term Financial Strategy (MTFS) for 2021/22 and beyond. In addition, there were additional cost pressures on the Council due to the significant increase in inflation which was 1.5% in April 2021 and 7% in March 2022.

The Council produces a three year MTFS on a rolling basis, which is updated annually. The strategy that the Council follows involves planning ahead of time, releasing resources in advance of need and using those resources to help fund transformational change. This strategy has served the Council well as it has delivered transformation programmes on time and on budget with minimum disruption.

A budget is prepared and approved annually, ahead of the financial year. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds. The budget will be approved by the County Council and proposed by the Cabinet on the advice of the Chief Financial Officer. The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme.

Throughout the financial planning i.e. annual budget and MTFS processes, consideration of other plans such as capital and treasury management also take place. The Capital and Investment strategy also forms part of the annual budget setting process with the strategy being taken to Cabinet for approval at the same time as the revenue budget.

We identified a risk around the arrangements that the Council has in place in relation to financial sustainability – including the impact of Covid-19 on the medium term financial planning. We identified this risk from the Chief Finance Officer's statements in the 2022/23 budget papers regarding the projected deficit in the medium term financial position to 2025/26, and that " without some form of Government intervention we are not financially sustainable in the medium term, even if we were to find some way of bridging the deficit to 2025/26". The July 2022 Medium Term Financial Strategy document suggested that by 2025/26 the Council could be facing a recurring deficit between £180m and £200m.

There are a number of pressures that the Council are facing in relation to their financial resilience and throughout their medium term financial planning, management have highlighted a number of risks including, rising costs in Adult Social Care, limited Government Funding and other general factors such as inflation. Due to the risk raised we performed additional work over the financial processes in place to manage these concerns. We held discussions with management to ascertain the extent of these risks and to understand the work being done to help combat these issues. Management highlighted the processes that were being undertaken to understand what could be done to close the budget gap, covering Internal measures, funding from Central Government and legislative changes.

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

HCC have implemented arrangements to identify whether they are able to close the budget gap through their own means. These processes have involved working with the Corporate Management Team (CMT) and Directors and asking them to look at each service area and consider differing options with increasing levels of impact and severity, as well as to come up with any cost cutting options. There is a monthly financial resilience meeting of the Directors of Social Services to monitor ongoing pressures.

Management, and Members, have also maintained an open dialogue with DLUHC as they work through their action plan. We note that the Council has taken early action in speaking to Government officials regarding the longer-term issues facing the Council.

Management have also highlighted that changes to legislation that reduce service cost or allow the Council to charge for services is also an option. Management have worked through some options for legislative changes which would significant amount of additional resource. However management note that no legislative changes have been made and therefore the Council are focusing on internal processes and lobbying the Government.

It is evident from our work performed that management has a detailed grasp of the financial challenge that it faces, and have put in place the necessary arrangements and processes in response. Therefore, in our judgement we assessed the Council's arrangements to be appropriate and without significant weakness within the financial year assessed.

Commentary on the latest financial position

Since our work was performed on the arrangements in place during the financial year, we have continued to monitor the Council's financial position. The financial update report to the July 2023 Cabinet meeting reported a net underspend for the year 2022/23 of £3.5m against the Directorate's cash limited budgets. There was a net £38m reduction in reserves for the year.

The report updated the Cabinet on the latest financial projections in the medium term period. Initially in the February 2023 budget papers, the expected gap to 2025/26 was £132m, and there was a commitment to review reserves to determine whether there were balances that could help support the budget bridging reserve. £89m was identified that could be re-purposed. However, this is offset by further cost pressures including, for example, to highways as a result of severe weather to a net position of £61.3m available to contribute to the 2024/25 budget with a small residual £2.4m gap to address. But this still left considerable pressure on the 2025/26 budget.

The Council have then reported to the October 2023 Cabinet meeting the Medium Term Financial Strategy Update and Savings Programme to 2025 Revenue Savings Proposals. Medium Term Financial Strategy Update and Savings Programme to 2025 Revenue Savings Proposal.pdf (hants.gov.uk)
The purpose of the report was to consider the overall financial strategy for dealing with the budget gap to 2025/26. The report also updated the current year (2023/24) position which shows significant pressures in School Transport which could lead to an additional pressure of around £18m by 2025/26, and identified there are also emerging concerns in Adults' Services and the SEN service that will need to be closely monitored to determine whether they will impact on the medium term forecast to 2025/26.

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Review processes have identified a total of £90.4m savings across all directorates, of which £75.1m are expected to be delivered by 2025/26, leaving an unmet budget gap of £56.9m for 2025/26. This is again currently assumed to have to come from reserves. As a change to previous policy, savings that are made earlier than planned will be used to support the budget bridging reserve rather than retained and reinvested by the relevant directorate.

Reserves, over the three year period 23/24 to 25/26, are expected to be used at an average level of £58.9m per year. This is not sustainable, which the Council recognises and reports.

The financial reporting of the Council's budget position and forecasts continues to show that the Council has appropriate arrangements in place to identify risks to its financial sustainability. However, the solution to use reserves is only a temporary mitigation to the budget problems over the medium term strategy period, and is not sustainable. The pressures it is experiencing will require strong political and officer management and discipline in implementing the savings it has identified and will also require further significant decisions regarding its services to be taken over the next budget cycles, to be able to maintain a balanced budget.

We are likely to continue to identify Financial Sustainability as a value for money risk in the next two audit periods.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Recommendation: The County Council should maintain the level of monitoring and review it currently has in place whilst the identified strains and pressures continue. Focus should be made on implementing savings plans as soon as possible, and continually reviewing further options.

Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council has an effective corporate risk management framework embedded in their Corporate Governance Code which is in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. The Council manages risk through "robust internal control and strong public financial management".

The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee

Quarterly reports are received from the internal auditors highlighting their work carried out including a breakdown of fraud investigations with any significant issues detailed in summary format. The internal audit plan (approved by the Audit Committee 22 HCC Internal Audit Plan 21-22) incorporates both reactive and proactive fraud work along with fraud thematic reviews to identify and mitigate fraud risk.

Cases of alleged or proven incidents of fraud are investigated or tracked by internal audit and reported to the Audit Committee. Relevant trends are also reported to Audit Committee as would any incidents of fraud detected through internal audit checking procedures.

Financial regulations and procedures have been developed and are kept under review to ensure they provide an effective control framework. Compliance is monitored through appropriate review by service managers and finance staff together with independent review by internal audit.

The Annual Budget process including the responsibilities and procedures in the annual budget process is set out within the Constitution of the Council within Part 3, Chapter 5 – Financial Regulations. The Financial Regulations state that the Chief Financial Officer is responsible for "preparing and controlling forward financial plans, budget strategies, the revenue budget, the capital strategy and capital programme" with Chief Officers being responsible for "controlling expenditure and income, monitoring performance and taking the necessary action to remain within budgets and cash limits".

Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed, this is documented within section 3.11 of the Financial Regulations.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.

Value for Money (continued)

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

The Council is currently operating under the “Serving Hampshire – Strategic Plan for 2021-2025”.

The Plan has 4 strategic aims:

- Hampshire maintains strong and sustainable economic growth and prosperity
- People in Hampshire live safe, healthy and independent lives
- People in Hampshire enjoy a rich and diverse environment
- People in Hampshire enjoy being part of strong, inclusive communities

Each year the Council produces a performance report which details on the County Council’s performance throughout the year, both financial and non-financial. This report provides strategic oversight of the Council’s performance in year against the “Serving Hampshire” and sets out ways to refresh the Plan and update the Council Performance Management Framework.

To report progress against Serving Hampshire, departments are asked to rate performance against a core set of performance metrics on a quarterly basis.

Within the Constitution of the Council in Part 3, Chapter 6 it sets out the Standing Orders on Procurement and Contracts. This includes the procedures and statutory requirements in terms of the procurement of services. The Council has also developed a Procurement Strategy which sets the framework in which Hampshire County Council will work to ensure that procurement delivers value for money across all services and directly contributes to the achievement of their strategic goals.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	2021/22 has been an extraordinary year for the Council, with the Covid-19 pandemic providing a number of financial challenges during 2020/21 but also having a significant impact upon the review and development of the Medium-Term Financial Strategy (MTFS) for 2021/22 and beyond. In addition, there were additional cost pressures on the Council due to the significant increase in inflation which was 1.5% in April 2021 and 7% in March 2022. Regarding financial planning, the Council works to refine budgets and the Medium Term Financial Strategy (MTFS) to respond to cost pressures as they emerge, and recognises that effective financial planning remains difficult due to continuing uncertainties in the funding that will be made available to councils. The County Council reviews its budgetary position annually and produces a rolling three year plan, known as the Medium Term Financial Strategy (MTFS). This plan considers the financial climate at both the local and national level together with available resources and budgetary pressures in arriving at a financial strategy. <u>Medium Term Financial Strategy (MTFS):</u> The Council produces a three year MTFS on a rolling basis, which is updated annually. The strategy that the Council follows involves planning ahead of time, releasing resources in advance of need and using those resources to help fund transformational change. This strategy has served the Council well as it has delivered transformation programmes on time and on budget minimum disruption. The MTFS consists of a Reserves and Savings Strategy, which is summarised below: • Deliberate policy to make savings ahead of need to generate surplus funds (see Section 2 below where we discuss how this is done) • Using those reserves to fund the next phase of changes to release further savings and increase capital investment • Two year programme of savings to give the time and capacity to implement effectively • Straight line approach to allocating savings and corporate funding made available to fund spending pressures • Significant use of the Grant Equalisation Reserve to fund deficits in intervening years • Using other corporate reserves to fund voluntary redundancy programmes and corporate invest to save programmes In addition to the above, the Council focus on the Commercialisation of Local Government as part of their MTFS. A summary of this is shown below: • Charging users for the direct provision of services. • Investing money or using assets to generate a return. • Expanding traded services to other organisations. • Developing joint ventures that yield additional income or generate a return.

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (cont.)	<u>Annual Budget Setting Process:</u> A budget is prepared and approved annually, ahead of the financial year. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds. The budget will be approved by the County Council and proposed by the Cabinet on the advice of the Chief Financial Officer. The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme. These guidelines will take into account: • legal requirements • the medium-term planning prospects • the corporate strategy • available resources • spending pressures • Any other relevant plans The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis. The County Council may amend the budget and capital programme or ask the Cabinet to reconsider it before approving it. We note that the Council has a good record of delivering against its financial strategies and budgets by containing expenditure within budgets and achieving early savings. The success of the strategies indicates that the Council are focused on identifying any potential risks and implementing a strategy to work against these risks in order for them not to be a financial burden in the future.
How the body plans to bridge its funding gaps and identifies achievable savings	The saving targets and other headline issues are agreed as part of the MTFS as noted above. The Council then implements their Savings strategies. These strategies have previously been through their “Transformation To” plans. These “Transformation To” plans have been replaced by “Saving Programmes” plans. It has been noted by management that, each successive savings programme is becoming more difficult to deliver as the potential to achieve further permanent cost reductions through early intervention and demand management and prevention approaches is reduced. In addition, the Council have implemented a “Working towards Economic Recovery” for which they have set out the current economic challenges and their response to it. The MTFS sets out clear savings strategies which the Council needs to implement to remain sustainable.

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The Council's saving plans and initiatives focus around the four strategic aims, which bring together a number of their priorities forming an overarching framework for their services: • "Hampshire maintains strong and sustainable economic growth and prosperity – The first strategic aim relates to Hampshire's future economic growth and prosperity. • People in Hampshire live safe, healthy and independent lives – The second strategic aim is about supporting people to live safe, healthy and independent lives by focusing the County Council's resources where need is greatest, and where they can make the biggest difference. • People in Hampshire enjoy a rich and diverse environment – The third strategic aim balances the first by ensuring that Hampshire's economic success does not come at the expense of the county's environment and heritage. • People in Hampshire enjoy strong, inclusive communities – The fourth strategic aim is about recognising the resources, skills and strengths that exist in local communities and that, when utilised, can help reduce the demand and dependency on County Council services." The Council recognises that its ability to continue to deliver front line services will depend on its capacity to generate new funding streams, streamline the way that residents access services and support and encourage self-sufficiency, whilst protecting the most vulnerable. Their focus is on targeting resources at the most vulnerable people while becoming more efficient in the delivery of its services. The Council have also implemented a strategic plan which is intended to guide decision making to ensure that money is targeted where it is needed most and where it can make the greatest difference. As noted above, The Council reviews its budgetary position annually and produces a rolling three year plan, known as the Medium Term Financial Strategy (MTFS). This enables the entity to consider the financial climate at both the local and national level together with available resources and budgetary pressures in order to arrive at a financial strategy. Throughout these processes, each service line is considered individually in order to ascertain whether savings can be made in each of these areas and the potential impact these savings may have. This enables the Council to ensure consistent delivery of services throughout the County and enables them to monitor progress and risks relating to each service area.
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	Throughout the financial planning i.e. annual budget and MTFS processes, consideration of other plans such as capital and treasury management also take place. The Capital and Investment strategy also forms part of the annual budget setting process with the strategy being taken to Cabinet for approval at the same time as the revenue budget. The Capital and Investment Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. This strategy covers:

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
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 (cont.)	• Governance arrangements for capital investment. • Capital expenditure forecasts and financing. • Prudential indicators relating to financial sustainability. • MRP for the repayment of debt. • Treasury Management definition and governance arrangements. • Investments for service purposes, linked to the County Council's Commercial Strategy. • Knowledge and skills. • CFO's conclusion on the affordability and risk associated with the Capital and Investment Strategy. • Links to the statutory guidance and other information All of the Council's financial strategies and planning interlink and are presented in a way that informs clear and effective decision making.
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	Please see documentation above about the annual budget setting process, MTFS and saving initiatives. Throughout the preparation of each of these, risks are taken into consideration in order to see how they impact certain areas and what the financial implications of these risks might be. The Council has an effective corporate risk management framework in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. This includes both financial and non-financial risks. The elements of the Council's risk management's framework are outlined on their website. The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee. <u>Budget Monitoring and Control:</u> The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis. It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Chief Financial Officer. They should report to the relevant Executive Member on variations and take any action necessary to avoid exceeding their budgets and alert the Chief Financial Officer to any problems.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The Council has an effective corporate risk management framework embedded in their Corporate Governance Code which is in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. The Council manages risk through "robust internal control and strong public financial management". The elements of the Council's risk management's framework are outlined below:
	
	• Ensure that responsibilities for managing individual risks are clearly allocated
	• Align the risk management strategy and policies on internal control with
	• achieving objectives
	• Ensure an audit committee which is independent of the executive and accountable to the County Council:
	    • provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment
	    • that its recommendations are listened to and acted upon
	
	The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee.
	
	Quarterly reports are received from the internal auditors highlighting their work carried out including a breakdown of fraud investigations with any significant issues detailed in summary format. The internal audit plan incorporates both reactive and proactive fraud work along with fraud thematic reviews to identify and mitigate fraud risk.
	
	Cases of alleged or proven incidents of fraud are investigated or tracked by internal audit and reported to the Audit Committee. Relevant trends are also reported to Audit Committee as would any incidents of fraud detected through internal audit checking procedures.
	
	The Anti-Fraud and Corruption Strategy and related policies (including the Bribery Act Policy) are regularly reviewed and have been approved by the Audit Committee. The County Council fully participate in the National Fraud Initiative with results notified to the Audit Committee through the Chief Internal Auditors Annual Report and Opinion. In accordance with the Local Government Transparency Code 2014 all required fraud indicators are presented quarterly to the Audit Committee (as a public document) as part of the internal audit progress report.

How the body approaches and carries out its annual budget setting process	The Annual Budget process including the responsibilities and procedures in the annual budget process is set out within the Constitution of the Council within Part 3, Chapter 5 – Financial Regulations. The Financial Regulations state that the Chief Financial Officer is responsible for "preparing and controlling forward financial plans, budget strategies, the revenue budget, the capital strategy and capital programme" with Chief Officers being responsible

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body approaches and carries out its annual budget setting process (cont.)	for "controlling expenditure and income, monitoring performance and taking the necessary action to remain within budgets and cash limits". <u>Budget Preparation:</u> The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme. These guidelines will take into account: • legal requirements • the medium term planning prospects • the corporate strategy • available resources • spending pressures • the community plan and other relevant plans The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis and a forward financial forecast is prepared in line with Government Funding February 2021 notifications for consideration by the Cabinet, before submission to the County Council. The County Council may amend the budget and capital programme or ask the Cabinet to reconsider it before approving it. It is the responsibility of chief officers to ensure that revenue and capital budget estimates reflecting agreed service plans are prepared in consultation with the Chief Financial Officer and Executive Member and submitted to the Cabinet and that these estimates are prepared in line with the budget guidance issued by the Cabinet.
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	Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed, this is documented within section 3.11 of the Financial Regulations and is set out below. <u>Budget Monitoring and Control:</u> The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis. It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
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 (cont.)	performance taking account of financial information provided by the Chief Financial Officer. They should report to the relevant Executive Member on variations and take any action necessary to avoid exceeding their budgets and alert the Chief Financial Officer to any problems. Any new proposal containing significant financial implications must take note of the Chief Financial Officer's advice as well as that of the relevant Chief Officer and Executive Member.
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 Council has a number of arrangements in place to ensure that appropriate decisions are made. Council decisions may be made either at meetings of all 78 Members i.e. 'Full Council', at committees of Council, at a meeting of all executive members i.e. 'Cabinet' or by individual executive members at 'decision days'. Decisions made by Cabinet or at decision days may be held to account by Select Committees (Overview and Scrutiny). Advisory panels and committees support and inform the decision making process. <u>County Council:</u> The Full Council is responsible for specified major decisions, such as setting the budget, and debates topical issues. It also receives reports from the Executive, and members are able to question the Executive on their areas of business. <u>Decision making:</u> Since 2001 Hampshire has operated a Leader with Cabinet structure. Hampshire's Cabinet is made up of the Leader and executive members who each have a portfolio of responsibilities. The Cabinet make decisions together on strategic issues and individual executive members can take decisions on issues relating directly to their portfolio areas. <u>Select Committees:</u> The Select Committees (Overview and Scrutiny) hold the executive members to account on the decisions they make both collectively as Cabinet and individually. They can assist the Cabinet and executive members to make effective decisions by examining issues beforehand and making recommendations – this is called 'pre-scrutiny'. The Select Committees can also challenge decisions before they are implemented, review decisions after they have been implemented to see if they achieved what was intended, and suggest new policy areas or review the effectiveness of existing policies. <u>Audit Committees:</u> The purpose of the audit committee is to monitor, review and report on the governance arrangements of the County Council.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
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 (cont.)	The committee meets quarterly and the regulatory framework that the Audit Committee follow is shown below: • To monitor the roles, processes and behaviour that affect the way that governance is exercised within the County Council and in particular the adoption, review and amendment of the Corporate Governance Framework for the County Council; • To review and consider the reports from the Chief Finance Officer on the treasury management function, including the treasury management strategy, half-yearly report and annual report; • To consider the effect of the County Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, seeking assurances as necessary that action is being taken on risk-related areas identified by auditors and inspectors; • To receive and form a view on internal assurances of governance practice and to be satisfied that the County Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it • To consider the County Council's compliance with its own and other published standards and controls; • To make recommendations to the County Council for the making or amending of financial regulations, standing orders related to contracts or regulations related to the conduct of the County Council's business. The Audit Committee is supported by the Internal Audit Function (Southern Internal Audit Partnership). Quarterly reports are received from the internal auditors highlighting work carried, these reports are presented at Audit Committee where the results and procedures are discussed amongst those charged with governance. <u>Monitoring Officer:</u> The Council also has a Monitoring Officer in place. The function and role of the Monitoring Officer is shown within Section 1, Chapter 13 of the Constitution. The functions of the Monitoring Officer include: • Maintaining the Constitution • Ensuring lawful and fair decision making • Proper Officer for Access to Information – i.e. will ensure that records of decisions, together with the reasons for those decisions and relevant officer reports and background papers, are made publicly available as soon as possible • Checking whether executive decisions are within the budget and policy framework • Supporting the Audit Committee – i.e. give guidance to the Audit Committee on matters appertaining to the governance of the County Council's affairs

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
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)	To ensure effective leadership throughout the County Council, members and officers work together to deliver agreed plans with defined functions and roles. These roles and responsibilities are set out in the Constitution including those for the Executive, Committees, Full Council and Chief Officers and the rules under which they operate. In particular, it looks at how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Many of these processes are required by statute and regulations by Governmental and other bodies (e.g. CIPFA) while the County Council has determined others locally. The Head of Governance (Monitoring Officer) provides advice on the interpretation and application of the Constitution. The Council has a sound management philosophy, demonstrates clarity of purpose and focus, with emphasis on performance and risk management. Our experience and knowledge of senior management is that they act with integrity, have good standards of behaviour and performance and lead by example. Both management and those charged with governance maintain an ethical stance and respond to instances of non-compliance with remedial action. There is an ethos of compliance with laws and regulations. The County Council has adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers. These include codes of conduct for both officers and members and cover conflicts of interest and gifts and hospitality and appropriate policies for partnership working. These are communicated as part of the induction process. All staff and members are provided with a copy of the respective codes of conduct when joining the Council and are required to read and comply with them.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement How the body evaluates the services it provides to assess performance and identify areas for improvement	The Council is currently operating under the "Serving Hampshire – Strategic Plan for 2021-2025". The Plan has 4 strategic aims: • Hampshire maintains strong and sustainable economic growth and prosperity • People in Hampshire live safe, healthy and independent lives • People in Hampshire enjoy a rich and diverse environment • People in Hampshire enjoy being part of strong, inclusive communities Each year the Council produces a performance report which details on the County Council's performance throughout the year, both financial and non-financial. This report provides strategic oversight of the Council's performance in year against the "Serving Hampshire" and sets out ways to refresh the Plan and update the Council Performance Management Framework. To report progress against Serving Hampshire, departments are asked to rate performance against a core set of performance metrics on a quarterly basis. For each measure, a risk-based 'red, amber, green' rating is applied, informed by the most recent data and management information. Departments also provide an overview of key achievements and detail any risks/issues and budget pressures that may impact performance against agreed priorities. Within this detail, departments are asked to provide a description of the mitigating actions that are in place where the risk rating exceeds the desired threshold and gives an opportunity to flag if wider support is required. The Insight and Engagement team is responsible for data collation to support the monitoring process, but any mitigating actions are undertaken by departments themselves.
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 has a number of collaborative working arrangements which are all disclosed within Note 14 of their Statement of Accounts. It notes that The County Council has pooled budget arrangements with NHS bodies and joint working agreements with Hampshire Constabulary, Hampshire Fire and Rescue Service, Oxfordshire County Council, Westminster City Council, London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea. These involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity. <u>Integrated Business Centre</u> The Integrated Business Centre (IBC) is hosted by Hampshire County Council and was launched in 2014/15 for the provision of shared financial and HR services. The IBC has since extended it's services to Oxfordshire County Council, London Borough of Hammersmith and Fulham, City of Westminster Council and Royal Borough of Kensington and Chelsea.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
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 (cont.)	Performance is formally reviewed on a quarterly basis, and this includes a range of Performance Measures, overlaid by comprehensive service performance reports, and agreed actions to drive continued collective performance improvement. The IBC provides an ISAE 3402 Type 2 report in relation to the control environment. This allows HCC to monitor the control environment and follow up on any control weaknesses noted.
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	Within the Constitution of the Council in Part 3, Chapter 6 it sets out the Standing Orders on Procurement and Contracts. This includes the procedures and statutory requirements in terms of the procurement of services. The Council has also developed a Procurement Strategy which sets the framework in which Hampshire County Council will work to ensure that procurement delivers value for money across all services and directly contributes to the achievement of their strategic goals.

Appendix B – Summary of all recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Financial statements: Related Parties We identified a number of related party relationships that had not been identified during the preparation of the related party disclosure note. We were able to do additional procedures to conclude there were no transactions between HCC and these parties. In addition we noted one transaction that should have been disclosed in the Statement of Accounts – this was corrected by management.	There is a risk that necessary disclosures are omitted and the Statement of Accounts are incomplete. As such we recommend management review the processes around related parties and returns from senior officers and design additional internal processes to gain sufficient assurance over completeness.	We recognise the importance of correctly identifying related party relationships and will be developing a Microsoft Form that will provide additional guidance and detail and therefore a fuller declaration for the 2023/24 accounts to aid respondents and ensure all relevant detail is included. This is in addition to existing processes and checks that are in place and we believe this will ensure a proportionate process is in place.
Financial statements: Journal Posting We note that there is no 'official' authorisation process in place when processing journals within the system. We are aware that as a mitigating control, budget holders perform a review of their budgets on a regular basis however no evidence is kept on file of this review so there is no way to confirm that they have completed it.	There is a risk that incorrect journals are posted to the system which may impact the financial statements if not identified. As such we recommend that HCC can improve the documentation of the process undertaken by budget holders to enhance this control by evidencing the review the budget holders complete in order to demonstrate it operates effectively.	Our financial system is not configured to include authorisation of journal postings. CIES transactions are reviewed by exception as part of budget management processes. Processes are in place to review Balance Sheet GL codes. There are controls on journals posted as part of the year end accounts processes.
Financial Statements: Officers Remuneration Throughout our testing, it came to light that not all Officer Remuneration costs had been considered in the banding disclosure. These costs were in relation to a salary sacrifice shared cost additional voluntary contribution (SSSCAVC) scheme that had not previously been included within the disclosure.	Not having a complete information could lead to an incorrect disclosure being made in the Statement of Accounts. We therefore recommend that management review the process for compiling the Officer Remuneration note and ensure that they are reviewing all costs which form the disclosure.	We are reviewing processes for collating the information required for this disclosure note and working closely with HR and Payroll colleagues to ensure full data sets are used for all relevant costs

Appendix B – Summary of all recommendations - continued

Issue	Recommendation	Management Response
Financial statements: Exit Packages Throughout our testing we identified some exit packages that had been recorded in the 2021/22 but the year in which the exit package related to was hard to determine due to: • The way in which the Note is compiled i.e. not being provided with complete information • Not having the appropriate supporting evidence or the incorrect information (i.e. wrong date) being included on the "leaver form"	Being provided with incorrect information and/or not retaining the correct supporting evidence could lead to an incorrect disclosure being made in the Statement of Accounts. We therefore recommend that management review the process for compiling the Exit Packages note and ensure that there is an appropriate audit trail for their disclosure.	We are reviewing our processes for collecting the data and supporting evidence required for the exit packages note
Financial statements: Exit Packages In 2021/22, a prior year adjustment was made to the 2020/21 exit package disclosure note due to the prior year disclosure not containing all necessary costs for the exit packages. In addition to this, management realised that the note in the prior year accounts also did not include employees who worked in schools maintained by the local authority and whose exit package costs should therefore be included in the exit packages note.	We note that the exit package note is material by nature and therefore a prior period adjustment had to be made to the 2020/21 Accounts in the current year.	We have reviewed and redocumented our processes for completing this note which will ensure full and complete information on exits is included
Financial statements: Land & Buildings Existence The Property, Plant and Equipment (PPE) disclosure note in both the current and prior year financial statements was misstated as it incorrectly included gross book value and accumulated depreciation balances relating to Academies. Upon transfer of a school to an Academy, the Council should derecognise the school from their balance sheet as they no longer hold the risk and reward in relation to these assets. Management did not have adequate processes and controls to identify the balances in the financial statements.	This resulted in a balance of £78m of GBV and Accumulated Depreciation that should not be recognised by Hampshire County Council and was therefore overstated in the disclosure note. We recommend management undertake a detailed review of the Fixed Asset Register on a periodic basis to ensure they remain satisfied that the assets rightfully belong on HCC balance sheet.	These changes related to historic academy transfers from the period prior to 2017/18. These historic amounts have been adjusted and the correct processes are already in place for current and future years.

Appendix B – Summary of all recommendations - continued

Issue	Recommendation	Management Response
Value for Money: Financial Sustainability The Council is relying on an average of £58.8m use of reserves over the period 2023-24 to 2025-26. This is not sustainable.	The County Council should maintain the level of monitoring and review it currently has in place whilst the identified strains and pressures continue. Focus should be made on implementing savings plans as soon as possible, and continually reviewing further options.	Agreed.

Appendix C – Fees – Hampshire County Council

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)".

In line with previous years, for 2021/22 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Council and additional work to address the increase in Regulatory standards.

As outlined in the Audit Results Report we were required to carry out additional audit procedures relating to the infrastructure assets change of scope; review of the triennial valuation; additional procedures required to gain sufficient assurance over fixtures and fittings; engaging a PFI expert; and the audit of prior period adjustments identified through the course of the audit. As a result, we have discussed an associated additional fee with the CFO which remains subject to approval by PSAA Ltd.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Scale Fee - HCC	89,720	89,720	89,720
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	49,074	49,074	12,944
Scale fee variation - new auditing standard and Value for Money requirements (Note 2)	13,103	13.103	13,103
Scale fee variations (Note 3)	21,963	910	3,245
IAS 19 protocol fees	1,017	1,017	1.017
Total Audit Fee	174,877	153,824	120,029
Non-audit work - ISAE 3402	56,500	56,500	56,500
Total fees	231,377	210,324	176,529

Note 1: In line with previous years, for 2021/22 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Council and additional work to address the increase in Regulatory standards.

Appendix C – Fees – Hampshire County Council

Fees

Note 2: Applying from the 2020/21 audit year, the NAO 2020 Code of Audit Practice included new requirements for our value for money responsibilities that are not included in the scale fee. Additional work was also necessary to address the impact of the updated auditing standard on estimates (ISA540). We have submitted the same fee variation request as the previous year for the impact of these changes in requirements, which are towards the bottom of PSAA's estimated ranges for their impact.

Note 3: We have requested variations specific to the 2021/22 audit for:

- £6,497 Additional procedures regarding Infrastructure Assets
- £910 Use of EY expert to determine the impact of errors from the streetlighting PFI findings.
- £3,116 Exit packages errors and prior period adjustment
- £3,370 Property, Plant & Equipment prior period adjustment (academy schools)
- £1,877 Additional work on iterations of Officer Remuneration disclosure
- £2,314 Extended procedures to identify and test the underlying evidence for furniture and fittings existence
- £1,818 Value for Money procedures to address the identified financial resilience risk.
- £2,061 use of EY internal experts for pensions testing, including triennial valuation impact review

We confirm we have undertaken non-audit work in respect of providing an ISAE 3402 report on the IBC, see page 33.

Appendix C – Fees – Hampshire Pension Fund

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)".

For 2021/22 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Pension Fund and additional work to address the increase in Regulatory standards.

As outlined in the Audit Results Report we were required to carry out additional audit procedures relating to engaging an expert to value the underlying company behind one of the pension fund's level 3 assets. We also needed to undertake additional procedures due to the impact of the triennial valuation of the IAS26 disclosures. As a result, we have discussed an associated additional fee with the CFO which remains subject to approval by PSAA Ltd.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Scale Fee - HPF	24,442	24,442	24,442
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk	39,699	39,699	9,982
Scale fee variation - new auditing standard	603	603	603
Scale fee variation – use of EY specialist	4,935	5,000	4,119
Scale fee variation – impact of triennial valuation	2,946	0	0
Total Audit Fee	72,625	69,744	39,146

We confirm we have not undertaken any non-audit work for the Pension Fund.

Appendix C – Fees
Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members 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 01 April 2021 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 previous page includes a summary of the fees that you have paid to us in the year ended 31/03/22 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below. We highlight in the table below the most significant services that may be reasonably considered to bear upon our integrity, objectivity and independence.

Description of service	Related independence threat	Safeguards adopted and reasons considered to be effective
Non-audit work in relation to the ISAE 3402 report on the integrated business centre (IBC)	Self-review	The work will be led and delivered by a separate SOC reporting team. No members of the audit team will work on this project.

As at the date of this report, future services have been contracted to provide the same non-audit services for the year ended 31 March 2023.

We confirm that we have undertaken non-audit work in relation to the ISAE 3402 report on the integrated business centre as noted above. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

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ED None

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