

## NOTICE OF MEETING

<b>Meeting</b>	Audit Committee
<b>Date and Time</b>	Thursday, 26th May, 2022 at 2.00 pm
<b>Place</b>	Chute Room, Ell South, The Castle, Winchester
<b>Enquiries to</b>	members.services@hants.gov.uk

Carolyn Williamson FCPFA  
Chief Executive  
The Castle, Winchester SO23 8UJ

## FILMING AND BROADCAST NOTIFICATION

This meeting may be recorded and broadcast live on the County Council's website and available for repeat viewing, it may also be recorded and filmed by the press and public. Filming or recording is only permitted in the meeting room whilst the meeting is taking place so must stop when the meeting is either adjourned or closed. Filming is not permitted elsewhere in the building at any time. Please see the Filming Protocol available on the County Council's website.

## AGENDA

### 1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

### 2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

### 3. MINUTES OF PREVIOUS MEETING HELD ON 3 MARCH 2022 (Pages 5 - 8)

To confirm the minutes of the previous meeting.

**4. DEPUTATIONS**

To receive any deputations notified under Standing Order 12.

**5. CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make.

**6. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS (Pages 9 - 14)**

To receive the quarterly update on the County Council's use of regulated investigatory powers.

**7. EXTERNAL AUDIT PLANNING REPORT 2021/22 (Pages 15 - 96)**

To receive the external audit planning reports for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2022.

**8. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 10 DECEMBER 2021 (PUBLIC) (Pages 97 - 108)**

To receive the public minutes of the Hampshire Pension Fund Panel and Board meeting held on 10 December 2021.

**9. EXCLUSION OF THE PRESS AND PUBLIC**

To resolve that the public be excluded from the meeting during the following item of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during this item there would be disclosure to them of exempt information within Paragraphs 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the cases, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the exempt minutes.

**10. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 10 DECEMBER 2021 (EXEMPT) (Pages 109 - 116)**

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 10 December 2021.

**ABOUT THIS AGENDA:**

**On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.**

**ABOUT THIS MEETING:**

**The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact [members.services@hants.gov.uk](mailto:members.services@hants.gov.uk) for assistance.**

County Councillors attending as appointed members of this Committee or by virtue of Standing Order 18.5; or with the concurrence of the Chairman in connection with their duties as members of the Council or as a local County Councillor qualify for travelling expenses.

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# Public Document Pack Agenda Item 3

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL  
held at the castle, Winchester on Thursday, 3rd March, 2022

Chairman:

\* Councillor Alexis McEvoy

- \* Councillor Rod Cooper
- \* Councillor Tim Davies
- \* Councillor Dominic Hiscock
- \* Councillor Keith House
- \* Councillor Mark Kemp-Gee
- \* Councillor Derek Mellor
- \* Councillor Michael Thierry
- \* Councillor Andy Tree

\*Present

## 42. APOLOGIES FOR ABSENCE

All Members were noted to be in attendance.

## 43. DECLARATIONS OF INTEREST

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

## 44. MINUTES OF PREVIOUS MEETING HELD ON 16 DECEMBER 2021 (PUBLIC)

The public minutes of the meeting held on 16 December 2021 were agreed as a correct record and signed by the Chairman.

## 45. DEPUTATIONS

No deputations were received by the Committee on this occasion.

## 46. CHAIRMAN'S ANNOUNCEMENTS

There were no announcements.

47. **INFORMATION COMPLIANCE – USE OF REGULATED INVESTIGATORY POWERS**

The Committee considered the report of the Chief Executive regarding the County Council's use of regulated investigatory powers.

Members heard that surveillance powers had not been used during the previous quarter.

**RESOLVED:**

That the Audit Committee receives and notes the data regarding the County Council's use of surveillance powers.

48. **EXTERNAL AUDIT ANNUAL REPORT FOR THE YEAR ENDING 31 MARCH 2021**

The Committee received the annual report from the external auditors for the year ending 31 March 2021.

The auditor highlighted to Members that:

- The information within the report had been presented as an Annual Audit Letter in previous years, however auditors were now required to submit an Auditor's Annual Report which included commentary on value for money.
- Due to the time required to complete property valuations, the audit for 2020/21 had taken longer than anticipated. An unqualified report had been signed off by Ernst and Young in December, which had not identified any issues which would require the use of wider powers. It was further heard that certification had not yet been issued, due to the unavailability of systems at the Treasury preventing the County Council entering the necessary Whole of Government Accounts data for audit. It was expected that the certification of completion of the audit would be issued in July 2022.
- The audit had identified a net overstatement on the value of lands and building, however this was not material to the accounts and still represented the value of the Council's accounts fairly.
- Materiality, which represented the benchmark for error, was based on proportionality and had been set at £50m for Hampshire County Council and £100m for the Hampshire Pension Fund. Members heard that it was generally applied for valuations, where there was no definitive right answer and allowed for a difference in opinion between the auditor and the organisation.

**RESOLVED:**

That the Audit Committee receives and notes the Hampshire County Council and Hampshire Pension Fund Audit Reports for year ending 31 March 2021.

49. **TREASURY MANAGEMENT STRATEGY STATEMENT 2022/23 TO 2024/24**

The Committee considered a report of the Director of Operations presenting the Treasury Management Strategy Statement for 2022/23 to 2024/25.

Members heard that:

- A new section had been included in the report this year, which outlined the liability benchmark and demonstrated that the County Council had no requirement to borrow over the forecast period.
- Investments were managed through limits within the strategy. The strategy proposed included temporarily increased counterparty limits from £70m to £90m per organisation due to temporarily increased cash balances as a result of capital programme delays resulting from the Covid-19 pandemic and the receipt of grant that was due to be spent. Members heard that increased limits would ensure that the investment portfolio could be invested in accordance with the strategy.
- Arlingclose had updated their position in February with a forecast for two further interest rate rises during 2022. Members were advised that this position could change again during the course of the year ahead.

**RESOLVED:**

That the Audit Committee notes the following recommendations that have been made to Cabinet:

- That the Treasury Management Strategy for 2022/23 (and the remainder of 2021/22) be approved.
- That authority is delegated to the Director of Corporate Operations to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

50. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 28 SEPTEMBER 2021 (PUBLIC)**

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 28 September 2021.

51. **EXCLUSION OF THE PRESS AND PUBLIC**

The press and public were excluded from the meeting during the following items of business, as it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would have been disclosure to them of exempt information within Paragraphs 3 and 5 of Part I Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information, for the reasons set out in the minutes.

52. **MINUTES OF THE PREVIOUS MEETING HELD 16 DECEMBER 2021  
(EXEMPT)**

The exempt minutes of the meeting held on 16 December 2021 were agreed as a correct record.

53. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD  
MEETING - 28 SEPTEMBER 2021 (EXEMPT)**

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 28 September 2021.

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Chairman, 26 May 2022

## HAMPSHIRE COUNTY COUNCIL

### Report

<b>Committee/Panel:</b>	Audit Committee
<b>Date:</b>	26 May 2022
<b>Title:</b>	Information Compliance – Use of Regulated Investigatory Powers
<b>Report From:</b>	Chief Executive

**Contact name:** Peter Andrews

**Tel:** 0370 779 1365      **Email:** peter.andrews@hants.gov.uk

#### **Purpose of this Report**

1. The purpose of this report is to present the data regarding the County Council's use of regulated investigatory powers.

#### **Recommendation**

2. That the Audit Committee receives and notes the data regarding the County Council's use of surveillance powers as attached.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

Document

Location

None

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

This report requests that the Audit Committee receive and note the data and therefore the recommended action will not impact on groups with protected characteristics in any way.

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# Quarterly Reporting of Surveillance

## Number of Authorisations by Quarter (1 April 2021 – 31 March 2022)

Direct Surveillance			
	Purpose of Surveillance		
2021-22 Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3	0	0	0
4	0	0	0
<b>Total -</b>	<b>0</b>	<b>0</b>	<b>0</b>

Covert Human Intelligence Source (CHIS)			
	Purpose of Surveillance		
Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3	0	0	0
4	0	0	0
<b>Total -</b>	<b>0</b>	<b>0</b>	<b>0</b>

Communications Data			
Quarter	Number of Applications	Number of Specific Notices	Offences related to:
1	1	1	Doorstep Crime
2	0	0	
3	0	0	
4	0	0	
<b>Total -</b>	<b>1</b>	<b>1</b>	

The decision to deploy any of the surveillance techniques defined within RIPA is dependent upon many considerations. Where there are other investigative tools available, which are both overt in nature and more appropriate to be used, they will be deployed instead of reverting to any of the surveillance techniques referenced within RIPA.

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## HAMPSHIRE COUNTY COUNCIL

### Report

<b>Committee/Panel:</b>	Audit Committee
<b>Date:</b>	26 May 2022
<b>Title:</b>	External Audit Planning Report 2021/22
<b>Report From:</b>	Ernst and Young LLP (external auditors)

**Contact name:** Kevin Suter

**Tel:** 02380 382000

**Email:** ksuter@uk.ey.com

#### **Purpose of this Report**

1. The purpose of this report is to present to the Audit Committee the Audit planning reports for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2022

#### **Recommendation**

2. That the Audit Committee receives and notes the Hampshire County Council and Hampshire Pension Fund Audit planning reports for 2020/21, as attached at Appendix 1 and 2.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

Document

Location

None

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

The recommended action will not impact on groups with protected characteristics in any way.

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# Hampshire County Council

Audit planning report

Year ended 31 March 2022

May 2022

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Audit Committee  
Hampshire County Council  
The Castle  
Winchester  
Hampshire  
SO23 8UJ

6 May 2022

Dear Audit Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit 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. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Hampshire County Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 26 May 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter  
For and on behalf of Ernst & Young LLP



# Contents



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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>). 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 (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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 the 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 the 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.





01

# Overview of our 2021/22 audit strategy





# Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	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. Our judgement is that the risk at the council relates to the improper capitalisation of revenue expenditure.
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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.
IAS19 – Pension Accounting	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require Hampshire County Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Councils pension fund liability is a material estimated balance and the Code requires that this be disclosed on the balance sheet. Accounting for this scheme involves significant estimation and judgement. Due to complexity and size, enhanced procedures are required to challenge and evaluate key inputs and assumptions.
Valuation of Investment Properties and Land and Buildings	Inherent risk	No change in risk or focus	The valuation of land and buildings included in the financial statements is complex and often includes a number of assumptions and judgements. Enhanced procedures are required to challenge and evaluate key inputs and assumptions.
Private Financing Initiative (PFI)	Inherent risk	No change in risk or focus	There is a high level of estimation and complexity involved with this estimate. In addition, the amount is significant to the Council and as such a small variation in the estimate can have a significant impact.
Infrastructure assets	Area of focus	New Risk	CIPFA has established a task and finish group to address an issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. The group will consider the issues arising, and how it might assist in their resolution. Such assistance might take the form of producing additional guidance on this issue, or including clarifications in the accounting code. We will engage with management over the impact of the issue on the Council's accounts.

# Overview of our 2021/22 audit strategy

## Materiality

Materiality has been set at £46,481,220, which represents 1.8% of the prior years gross expenditure on provision of services.

Planning  
materiality

£46m

Performance  
materiality

£34m

Audit  
differences

£2m

Performance materiality has been set at £34,860,915, which represents 75% of planning materiality.

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement) greater than £2,324,061. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

# Overview of our 2021/22 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Hampshire County Council (“HCC”) give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council’s Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management’s views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on “the auditors assessment of risk and the work needed to meet their professional responsibilities”. PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of 2021/22 Council’s audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

# Overview of our 2021/22 audit strategy

## Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will provide a commentary on the Council's arrangements against three 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; and
  - 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 commentary on VFM arrangements will be included in our Auditor's Annual Report.

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## Timeline

The Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years).

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22.

We are working with the Council to deliver the audit ahead of 30 November. In Section 07 we include a provisional timeline for the audit.



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# 02 Audit risks





## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p data-bbox="100 699 145 861" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 20</p> <p data-bbox="123 778 474 810"><b>Financial statement impact</b></p> <p data-bbox="100 831 544 1086">Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts had the following balances in the 2020/21 financial statements]:</p> <p data-bbox="100 1123 389 1182">PPE Additions: £149m REFCUS: £92m</p>	<p data-bbox="566 456 1182 715">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.</p> <p data-bbox="566 762 1182 890">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.</p> <p data-bbox="566 906 1182 1002">As such we associate this risk with capital additions and Revenue Expenditure financed from capital under statute (REFCUS).</p>	<p data-bbox="1193 456 2139 552">For a sample of recorded capital additions we will examine invoices, capital expenditure authorisations and other data that support the appropriateness of these additions.</p> <p data-bbox="1193 584 2139 647">We will ensure that the items are capital in nature as per the definition of capital expenditure in IAS 16 and do not include revenue items.</p> <p data-bbox="1193 679 2139 743">We will ensure that the items recorded as REFCUS are appropriately classified, and meet the definition.</p> <p data-bbox="1193 775 2139 903">We will follow a fully substantive audit approach and utilise our data analytics capabilities to assist with our work through identifying high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.</p>



## Our response to significant risks (continued)

Misstatements due to fraud or error

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA 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.

### What will we do?

- Identify fraud risks during the planning stages.
- Inquire of management about risks of fraud and the controls put in place to address those risks
- Understand the oversight given by those charged with governance of management's processes over fraud
- Consider the effectiveness of management's controls designed to address the risk of fraud
- Determine an appropriate strategy to address those identified risks of fraud
- Perform mandatory procedures regardless of specifically identified fraud risks, including:
  - testing of journal entries and other adjustments in the preparation of the financial statements,
  - reviewing significant unusual transactions, and
  - reviewing material estimates for management bias.

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### What is the risk/area of focus?

#### Valuation of Land and Buildings and Investment Property

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are 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.

#### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £1.8 billion.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 (revised) require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

### What will we do?

We will:

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

We will:

- Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hampshire Council;
- Assess the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### What is the risk/area of focus?

#### Private Finance Initiative

The Council has 2 PFI contracts in place, in respect of waste and street lighting. These were both operational and recognised in the Council's balance sheet as at 31 March 2022.

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31

#### Infrastructure Asset Valuation

Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.

Nationally, audit firms have identified an issue with applying this accounting treatment to infrastructure assets. Across the country Authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

### What will we do?

We will:

- Review for any changes in the financial model made from previous years and confirm the assumptions used to continue to be appropriate.
- Review and test the accounting entries and disclosures made within the Council's financial statements
- We will also obtain an update on the recommendation raised in relating to the street lighting PFI in our 2020/21 audit results report.

We will involve our EY specialist to review the updated streetlighting model which was updated by management in response to previous audit findings.

We will:

- Continue to engage with management on any changing guidance to understand the impact on Hampshire County Council and 2021/22 financial statements.



03

# Value for Money Risks





## The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

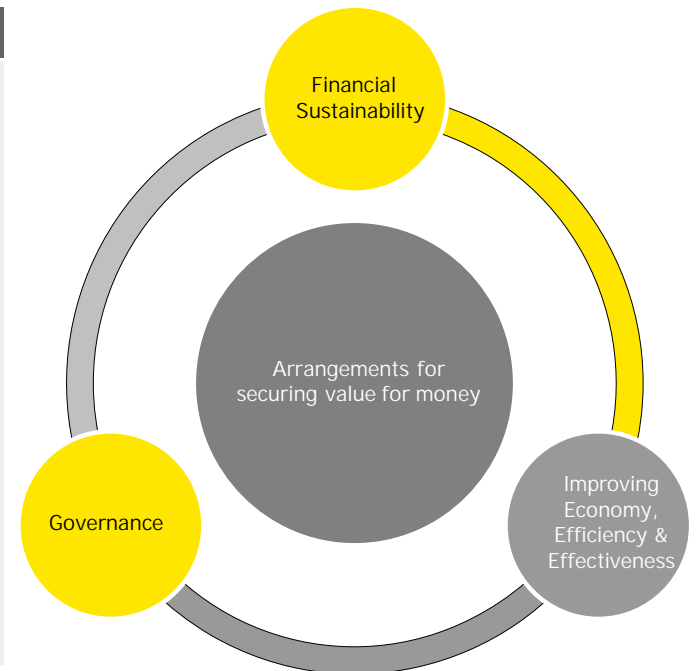
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

## Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- 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.





## Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement;
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.



# Value for Money

## Responding to identified risks of significant weakness

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 committee.

## Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The 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.

Page 55

## Status of our 2021/22 VFM planning

We have yet to fully finalise our detailed VFM planning. However, one area of risk identified will be 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 have 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* "

We will update the next Audit Committee meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.





04

# Audit materiality



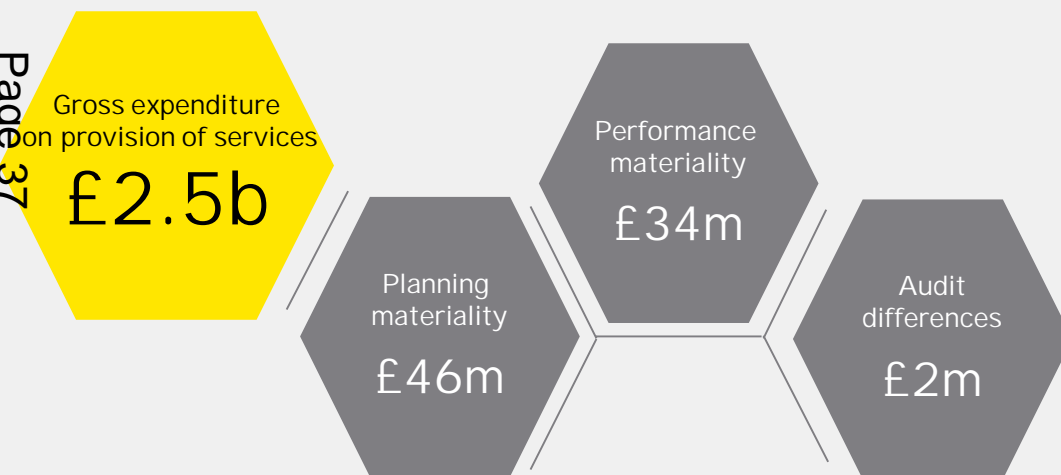


## Materiality

### Materiality

For planning purposes, materiality for 2021/22 has been set at £46m. This represents 1.8% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

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We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £34m which represents 75% of planning materiality.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income. The threshold has been set at 5% of planning materiality.

**Other uncorrected misstatements**, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

**Specific materiality** – We have set a materiality of £1k for Officers and Senior Employees Remuneration and audit fee disclosures which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

## Materiality

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.



05

## Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our opinion on the financial statements:

Page 40 whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO.

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to rely on controls, both manual and IT:

- Accounts receivable;
- Accounts payable;
- Payroll; and
- Cash and Bank.

Hampshire County Council Integrated business centre (IBC) have commissioned an ISAE 3402 type 2 report from EY's Financial Audit IT (FAIT) team. The ISAE 3402 report provides the users of the IBC with assurance over the suitability of the design and existence of controls and on the operating effectiveness of these controls during the financial year.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.





06

Audit team



# Audit team

Audit team structure:

Kevin Suter  
Associate Partner

Sarah Croft  
Senior Manager

Kelly Peachey  
Assistant Manager

Marco Buys  
Senior

EY Actuaries

EY Real Estates

EY Financial Accounting  
Advisory Services (PFI)

EY Data  
Analytics Team

# Use of specialists

Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings and Investment Properties	Management Specialist - Management's in-house valuation experts EY Specialist - EY Real Estates
Pensions disclosure	Management Specialist - AoN Hewitt PWC (Consulting Actuary to the NAO) EY Specialist - EY Actuaries
PFI	Management specialist - Capita EY Specialist - EY Internal PFI Specialist

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



# Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



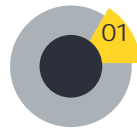
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Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

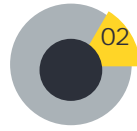
1. Our people are focused on a common purpose. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
  - Right resources – We team with competent people, investing in audit technology, methodology and support
  - Right first time – Our teams execute and review their work, consulting where required to meet the required standard
  - Right reward – We align our reward and recognition to reinforce the right behaviours

### 3. The six pillars of Sustainable Audit Quality are implemented.



#### Tone at the top

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality



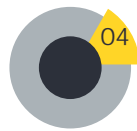
#### Exceptional talent

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management



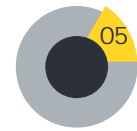
#### Accountability

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition



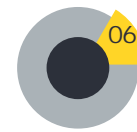
#### Audit technology and digital

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality



#### Simplification and innovation

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit



#### Enablement and quality support

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are encouraged and empowered to challenge and exercise professional scepticism across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

#### 2021 Audit Culture Survey result

A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

*"A series of company collapses linked to unhealthy cultures....have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success."*

Sir John Thompson  
Chief Executive of the FRC





# 07 Audit timeline







# Audit timeline

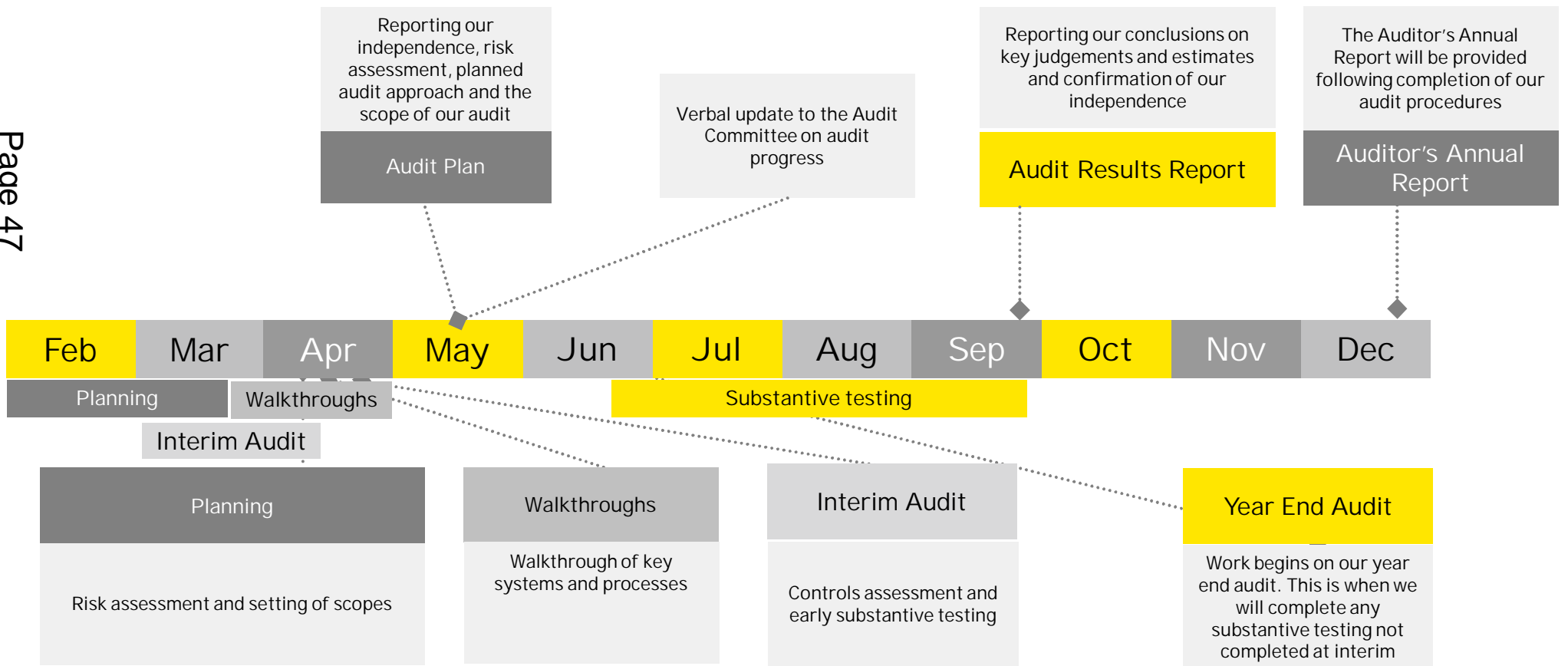
## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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08

# Independence



# Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>The overall assessment of threats and safeguards;</p> <p>Information about the general policies and process within EY to maintain objectivity and independence.</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit/additional services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement.

The only non-audit fees relate to the independent Service Organisation Controls Type 2 Assurance Report for the Hampshire Integrated Business Centre (IBC).

To ensure our independence as external auditor to Hampshire County Council is not impaired, we are required to seek approval from PSAA (Public Sector Audit Appointments Ltd) to provide these non-audit services. This approval has been requested.

We have adopted the following safeguards:

- The work will be led and delivered by a separate Service Organisation Controls (SOC) reporting team. Members of the existing audit team at Hampshire County Council will not work on this project. The remuneration of the Engagement Lead and the audit team are not impacted by this project.
- The estimated fee is in line with market rates for this type of engagement. The engagement will have a clearly defined scope, as set out in the scope of work and this work would not influence our conduct of or the outcome of the audits.
- The SOC report issued will be generic in nature and not specific to a particular customer or IBC. The controls reviewed will be homogenous controls.
- The work is limited to review of control within the end processes at the IBC. It does not include any aspects of decision-making on behalf of the IBC or the Council. It will not involve giving any advice in relation to decisions the IBC/Council may take.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

## Relationships, services and related threats and safeguards

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

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## Other communications

### EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

[https://www.ey.com/en\\_uk/about-us/transparency-report-2021](https://www.ey.com/en_uk/about-us/transparency-report-2021)





09

Appendices





## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

	Planned fee 2021/22	Note Ref	Proposed Final Fee 2020/21
	£		£
Scale Fee	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	49,074	1	49,074
Scale fee variation - new auditing standard and Value for Money requirements	16,455	2	16,455
Scale fee variation - PFI expert	910	3	910
IAS 19 protocol fees	1,017	4	1,017
<b>Total audit</b>	<b>157,176</b>		<b>157,176</b>
<b>Total other non-audit services - ISAE 3402 report on IBC</b>	<b>56,500</b>		<b>56,500</b>
<b>Total fees</b>	<b>213,676</b>		<b>213,676</b>

Notes: *All fees exclude VAT*

1. In our 2019/20 audit we set out the basis for a requested rebasing of the scale fees due to changes in regulatory requirements. These are ongoing impacts, therefore, we have continued to include this request based on the same level of inputs. From 2020/21 the fee impact increased by 25%, as PSAA's scale fee rates have increased by 25%.
2. From 2020/21, there are additional procedures required to satisfy the revised ISAs that have come into effect which may have additional costs, predominantly ISA540. The NAO's Code of Audit Practice 2020 also set out new requirements for our work and reporting on Value for Money. At our planning stage we have continued to include the impact at the lower end of the PSAA's communicated range, submitted in our 2020/21 fee variation proposal.
3. Fees in 20/21 relate to PFI expert required to quantify error as a result of error in streetlighting model. Model has been updated for 21/22 and we will require our expert to review the changes.
4. Fees are payable by the Pension Fund for the IAS19 protocol. HPF will not pay the fees, therefore, this is charged to each individual body.

The fee presented is based on the following assumptions:


- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.



If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.





# Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.



 Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report Auditor's Annual Report

## Required communications with the Audit Committee (continued)


		 Our Reporting to you
Required communications	 What is reported?	  When and where
Page 55 Financial statements	<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report
	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report
	<ul style="list-style-type: none"> <li>• Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements</li> </ul>	Audit results report
	<ul style="list-style-type: none"> <li>• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:                             <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit Committee responsibility</li> </ul>	Audit results report

## Required communications with the Audit Committee (continued)




Required communications	 What is reported?	 When and where
Related parties	<ul style="list-style-type: none"> <li>• Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Results Report

## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	Audit results report
Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report

## Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report	
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit plan is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit results report	
Value for Money	<ul style="list-style-type: none"> <li>Risks of significant weakness identified in planning work</li> <li>Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.</li> </ul>	Audit results report Auditor's Annual Report	

## Additional audit information

### Objective of our audit

Our objective is to form an opinion on the Council's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

## Additional audit information (continued)

### Other required procedures during the course of the audit (continued)

Procedures required by the Audit Code	<ul style="list-style-type: none"> <li>• Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.</li> <li>• Examining and reporting on the consistency of consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period</li> </ul>
Other procedures	<ul style="list-style-type: none"> <li>• We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice</li> </ul>

We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.



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# Hampshire Pension Fund

## Audit planning report

Year ended 31 March 2022

May 2022

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10 May 2022



**Audit Committee  
Hampshire Pension Fund  
The Castle  
Winchester  
Hampshire  
SO23 8UJ**

Dear Committee Members

Audit Planning Report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit 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. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Hampshire Pension Fund, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 26 May 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in blue ink that reads "Kevin Suter".

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

# Contents



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 July 2021)” issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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 Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hampshire Pension Fund 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 Committee and management of Hampshire Pension Fund 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

# Overview of our 2021/22 audit strategy





# Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Valuation of complex Investments (Level 3 Fair Value hierarchy)	Significant risk	No change in risk or focus	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 whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.
Valuation of non-exchange traded pooled funds (Level 2 Fair Value hierarchy)	Inherent risk	No change in risk or focus	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 2021, Hampshire Pension Fund held a significant balance of Level 2 investments. 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. The Pension Fund held £1,393 million of these investments at 31 <sup>st</sup> March 2021 of which £471 million relates to directly held property investments. (see next page)

## Overview of our 2021/22 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of directly held property (Level 2 Fair Value hierarchy)	Inherent risk	<b>No change in risk or focus</b>	<p>Directly held property are subject to valuation changes. Material judgemental inputs and estimation techniques are required to calculate the year-end valuation</p> <p>As the pension fund asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that directly held property may be under/overstated.</p> <p>We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>

# Overview of our 2021/22 audit strategy

## Materiality



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## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Hampshire Pension Fund give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.



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# 02 Audit risks



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p data-bbox="118 448 499 504"><b>Misstatements due to fraud or error*</b></p> <p data-bbox="118 799 472 831"><b>Financial statement impact</b></p> <p data-bbox="103 863 555 1018">Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements.</p>	<p data-bbox="577 475 1167 571">The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p data-bbox="577 608 1167 858">As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p data-bbox="1205 475 2069 539">We will undertake our standard procedures to address fraud risk, which include:</p> <ul data-bbox="1205 549 2107 756" style="list-style-type: none"> <li>▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.</li> <li>▶ Understanding the oversight given by those charged with governance of management's processes over fraud.</li> <li>▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.</li> </ul> <p data-bbox="1205 804 2056 868">Performing mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul data-bbox="1205 877 2101 1050" style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>▶ Assessing accounting estimates for evidence of management bias.</li> <li>▶ Evaluating the business rationale for significant unusual transactions.</li> </ul> <p data-bbox="1205 1075 2024 1107">We will utilise our data analytics capabilities to assist with our work.</p> <p data-bbox="1205 1123 2119 1251">We will include a focus on ensuring that the investment valuations provided through the custodian and fund managers are appropriately journaled into the financial statements, where we have identified the opportunity and incentive for override to occur.</p>



## Audit risks

# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of complex Investments  
(Level 3 Fair Value hierarchy)

Page 7/2

### Financial statement impact

As at 31 March 2021, Hampshire Pension Fund held a significant balance of level 3 investments. These included £443 million private equity investments, £269 million infrastructure investments and £220 million private debt.

These investments are more complex to value.

In the 2020/21 financial statements, the Pension Fund disclosed that the accuracy of these valuation techniques as between within 5% and 10%, of the estimated value.

### What is the risk?

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 whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

### What will we do?

Our approach will focus on:

- ▶ Reviewing the latest available audited accounts for the relevant investment company and ensuring there are no matters arising that highlight weaknesses in the investment company valuations;
- ▶ Where the latest audited accounts are not as at 31<sup>st</sup> March 2022, performing analytical procedures and checking the valuation output for reasonableness against our own expectations; and
- ▶ Testing accounting entries have been correctly processed in the financial statements.

If necessary, our internal valuation specialists will support our work in this area.



## 02 - Audit risks

### Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the risk/area of focus?

##### Valuation of non-exchange traded pooled investment (Level 2 Fair Value hierarchy)

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.

We consider the valuation of non-quoted pooled investments to be of a higher degree of inherent risk because of the extent of estimation uncertainty.

##### 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

As the pension fund asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that directly held property may be under/overstated.

We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.

#### What will we do?

We will:

- ▶ Reconcile the valuation of the non-quoted assets provided by the custodian and fund manager;
- ▶ Verify the fund manager unit valuation to recent unit sales using externally available market information
- ▶ Review the latest available audited accounts for the relevant fund and ensure there are no matters arising that highlight weaknesses in the fund's valuation;
- ▶ Performing an analytical review of the pooled funds movement in year against the specific market movements the fund is invested in

We will:

- ▶ Consider the competence, capability and objectivity of the Council's valuers;
- ▶ Sample test key inputs used by the valuer(s) when producing valuations;
- ▶ Challenge the assumptions used by the Pension Fund's property valuers by reference to external evidence and our EY valuation specialists (where necessary);



03

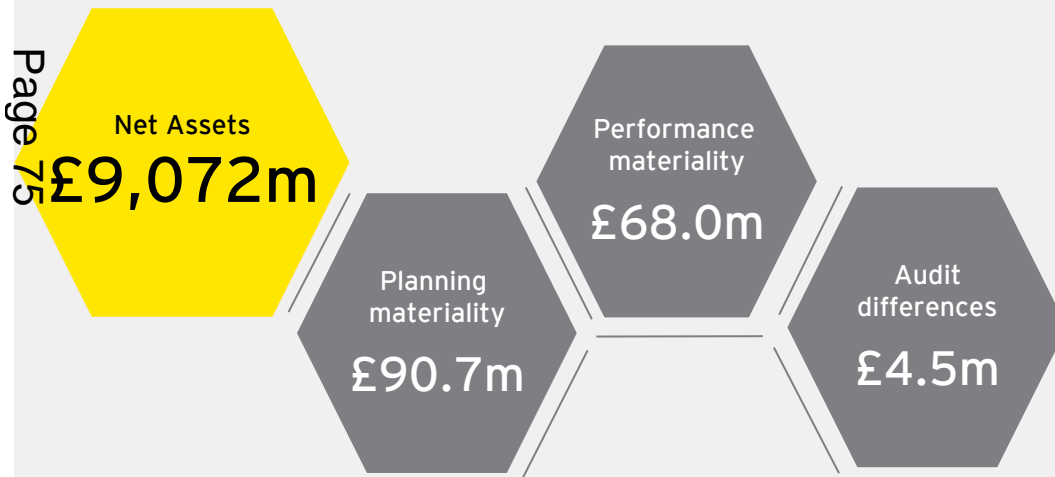
## Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2021/22 has been set at £90.7 million. This represents 1.0% of the Pension Fund's prior year net assets. It will be reassessed throughout the audit process. For Hampshire Pension Fund, the Net Asset Statement, which discloses the value of the investments held by the scheme, is the most appropriate measure rather than the Fund Account. Assets are key, as they cover the liabilities of the fund and generate significant income. Use of net assets as the measure of materiality is EY standard practice for pension funds.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

**Planning materiality** - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £68.0 million which represents 75% of planning materiality.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and the net assets statement that have an effect on returns or that relate to expenditure.

Other uncorrected misstatements, such as reclassifications and misstatements in statements or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.





04

Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements:

#### 1. Financial statement audit

Our objective is:

- To form an opinion on the financial statements under International Standards on Auditing (UK).
- To form an opinion on the consistency of the Pension Fund Financial Statements within the Pension Fund Annual Report with the published financial statements of Hampshire County Council.

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.





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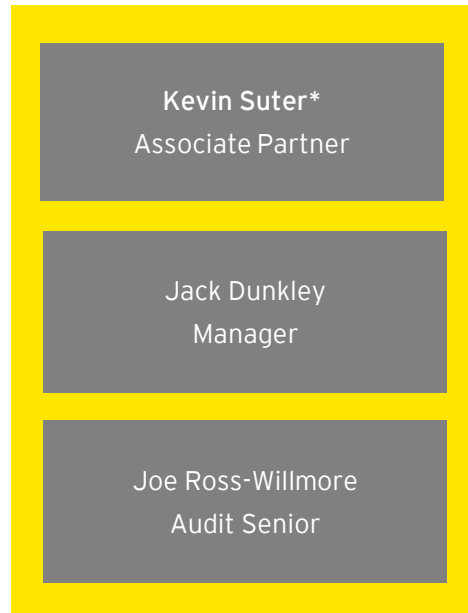
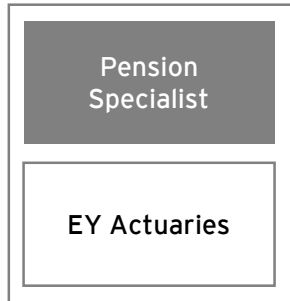
Audit team





# Audit team

**Audit team structure:**



\* Key Audit Partner

# Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Area	Specialists
IAS 26 - actuarial present value of promised retirement benefit	Management Specialist - Aon Hewitt PwC (Consulting Actuary to the NAO) EY Specialist - EY Actuaries
Investment valuations (Level 2 and Level 3)	Management Specialist - Colliers (Property valuations) EY Specialist - EY valuation specialist (if necessary)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

# Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



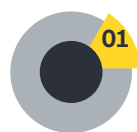
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Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

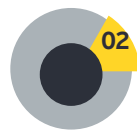
1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
  - ▶ **Right resources** – We team with competent people, investing in audit technology, methodology and support
  - ▶ **Right first time** – Our teams execute and review their work, consulting where required to meet the required standard
  - ▶ **Right reward** – We align our reward and recognition to reinforce the right behaviours

### 3. The six pillars of Sustainable Audit Quality are implemented.



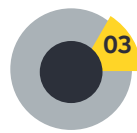
#### Tone at the top

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality



#### Exceptional talent

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management



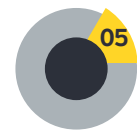
#### Accountability

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition



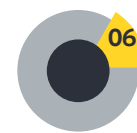
#### Audit technology and digital

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality



#### Simplification and innovation

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit



#### Enablement and quality support

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are **encouraged and empowered to challenge and exercise professional scepticism** across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

#### 2021 Audit Culture Survey result

A cultural health score of 78% (73%) was achieved for our UK Audit Business

#### We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

*“A series of company collapses linked to unhealthy cultures....have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success.”*

Sir John Thompson  
Chief Executive of the FRC





# 06 Audit timeline







# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	February - May		
Walkthrough of key systems and processes	February		
Interim substantive procedures	April		
Year end audit Audit Completion procedures	June / July	Audit Committee	Audit Planning Report
Year end audit Audit Completion procedures	August/ September	Audit Committee	Audit Results Report Audit opinion





07

# Independence



# Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.

### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner, and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Pension Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees, and we do not undertake any non-audit services for the pension fund.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Pension Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

## Other communications

### EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2021 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2021>





# 08

# Appendices





## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Note Ref	Final Proposed Fee 2020/21
	£		£
Scale Fee	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	1	39,699
Scale fee variation - new auditing standard	603	2	603
Scale fee variation - use of EY Real Estates	4,000 - 5,000	3	4,119
<b>Total audit</b>	<b>68,744- 69,744</b>	<b>24,442</b>	<b>68,863</b>

Note:

- 1) In our 2019/20 audit we set out the basis for a requested rebasing of the scale fees due to changes in regulatory requirements. These are ongoing impacts, therefore, we have continued to include this request based on the same level of inputs. From 2020/21 the fee impact increased by 25%, as PSAA's scale fee rates have increased by 25%. PSAA are yet to review conclude on either variation submission.
- 2) From 2020/21, there are additional procedures required to satisfy the revised ISAs that have come into effect which may have additional costs, predominantly ISA540. At our planning stage we have continued to include the impact at the lower end of the PSAA's communicated range, submitted in our 2020/21 fee variation proposal.
- 3) Fees in 20/21 relate to Property expert required to review the work performed by the Pension Fund Property Expert. We expect we will continue to use the expert in 2021-22

All fees exclude VAT.

The agreed fee presented is based on the following assumptions:





- ▶ Officers meet the agreed timetable of deliverables;
  - ▶ The production of materially accurate draft accounts;
  - ▶ Our accounts opinion is unqualified;
  - ▶ Appropriate quality of documentation is provided by the Pension Fund;
- and
- ▶ The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Pension Fund in advance.

## Appendix B




# Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report	
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report	

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## Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Page 92	Going concern	Audit results report
	Financial statements	Audit results report
Fraud		Audit results report
Related parties		Audit results report

## Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Page 93	<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Planning Report</p> <p>Audit Results Report</p>
	<p>External confirmations</p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<p>Audit results report</p>
	<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	<p>Audit results report</p>
	<p>Internal controls</p> <ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	<p>Audit results report</p>
	<p>Representations</p> <p>Written representations we are requesting from management and/or those charged with governance</p>	<p>Assurance Letter</p>
	<p>Material inconsistencies and misstatements</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>Audit results report</p>
	<p>Auditors report</p> <ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	<p>Audit results report</p>
	<p>Fee Reporting</p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit planning report</p> <p>Audit results report</p>

## Additional audit information

### Objective of our audit

Our objective is to form an opinion on the Pension Fund financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.



## Additional audit information (continued)

### Other required procedures during the course of the audit (continued)

<b>Procedures required by the Audit Code</b>	<ul style="list-style-type: none"> <li>▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.</li> <li>▶ Examining and reporting on the consistency of consolidation schedules or returns with the Pension Fund audited financial statements for the relevant reporting period</li> </ul>
<b>Other procedures</b>	<ul style="list-style-type: none"> <li>▶ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice</li> </ul>

We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

## HAMPSHIRE COUNTY COUNCIL

### Report

<b>Committee/Panel:</b>	Audit Committee
<b>Date:</b>	26 May 2022
<b>Title:</b>	Minutes of the Hampshire Pension Fund Panel and Board – 10 December 2021 (Public)
<b>Report From:</b>	Chief Executive

**Contact name:** Caroline Roser

**Tel:** 0370 779 5280

**Email:** [caroline.rosier@hants.gov.uk](mailto:caroline.rosier@hants.gov.uk)

#### **Purpose of this Report**

1. The purpose of this report is to present the public minutes from the meeting of the Hampshire Pension Fund Panel and Board which took place on 10 December 2021.

#### **Recommendation**

2. That the Audit Committee receives and notes the minutes as attached to this report.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no

**Section 100 D - Local Government Act 1972 - background documents**

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

This report requests that the Audit Committee receive and note the minutes of the Hampshire Pension Fund Panel and therefore the recommended action will not impact on groups with protected characteristics in any way.



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AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Ashburton Hall, Ell Court, Winchester on Friday, 10th December, 2021

Chairman:

\*Councillor M. Kemp-Gee

Vice-Chairman:

\* Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

* A. Crawford	A. Dowden
* J. Glen	* D. Hiscock
A. Joy	* D. Mellor
* R. Mocatta	* T. Davies (as an observer)
* D. Drew	

Employer Representatives (Co-opted members):

Councillor R. Harwood (Southampton City Council)

Councillor P. Taylor (District Councils - Rushmoor Borough Council)

\* Dr L Bartle (University of Portsmouth)

Councillor C. Corkery (Portsmouth City Council)

Scheme Member Representatives (Co-opted members):

\* Dr C. Allen (pensioners' representative)

\* Mr N. Wood (scheme members representative)

\* Ms L. Gowland (deferred members' representative)

Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:

\* C. Dobson

\*present

## **BROADCASTING ANNOUNCEMENT**

The Chairman asked for the broadcast of the meeting to begin. Those remaining at the meeting were consenting to being filmed and recorded.

### **35. APOLOGIES FOR ABSENCE**

Councillors Dowden, Corkery, Harwood, and Joy and Mrs Manchester sent their apologies.

### **36. DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed,

save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Personal interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 4 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

**37. CONFIRMATION OF MINUTES (NON-EXEMPT)**

The minutes of the previous meeting held on 28 September 2021 were confirmed.

**38. DEPUTATIONS**

The Panel and Board received a deputation from Mr Tony Langridge a deferred member, speaking on agenda item 9, the Pension Fund's Business Plan, representing the Dirty Money Campaign.

Mr Langridge stressed that we are all living in a climate emergency and individuals often feel powerless, however the Pension Fund has power that individuals lack, and therefore it would be wonderful if it showed leadership in this area rather than appearing to be reluctant to seriously consider divestment. The Dirty Money Campaign would like the Fund's investments to help meet, not undermine, the world's goal to limit global heating to 1.5 degrees Celsius.

Mr Langridge highlighted that it had been reported that the Pension Fund has an estimated £136m directly invested in the fossil fuels industry. He described these investments as dirty money and asserted that these could soon become stranded assets. He highlighted examples of sustainable investments that had achieved strong recent returns.

Mr Langridge stated that the Pension Fund's Business Plan reflects a lack of urgency in this whole area, and despite this, the last Annual Report identified climate change as 'a systemic risk and thus a material long term financial risk' but he couldn't see in the Business Plan any direction to urgently address this risk. He suggested that the Fund's investment managers should not be just required to consider Environmental, Social and Governmental factors but directed to reduce all investment in companies with carbon intensive operations.

Mr Langridge highlighted the good practice of a number of investors having formally adopted the 1.5 degrees C alignment as a core commitment and are the members of the Net-Zero Asset Owner Alliance; these investors were hailed at COP26 as a gold standard of what financial institutions of all sizes should be doing. Mr Langridge stated that it would be good to see an ambition from Hampshire to be the best in this area, such as joining the Institutional Investor Group on Climate Change's Net Zero Investment Framework. This group has 360 members including a number of local authority pension funds including West Midlands, West Yorkshire, Tayside, Lothian, Islington, Newham and more locally Wiltshire.

Mr Langridge noted the potential risks of Climate Change, for example large areas of Hampshire are at risk of rising sea levels and coastal flooding by 2030. Mark Carney has said investors should stay with polluting companies and support them to transition, however Mr Langridge believes this is a dangerous approach as it ignores that for most companies profit maximisation comes before the future of the planet, and so the Pension Fund needs to look for commitment from those companies it invests the members money in; the Fund needs companies and investment funds that demonstrably commit to guarding the 1.5 degree C goal.

Mr Langridge concluded by pointing to the Glasgow Climate Pact which showed the goal of a 1.5 degrees C limit written clearly for all to see and asked if the Pension Fund would;

- acknowledge it,
- act on it without further delay, and
- take a leading rather than passive approach.

Cllr Kemp-Gee thanked Mr Langridge for his deputation.

#### **39. CHAIRMAN'S ANNOUNCEMENTS**

The Chairman thanked the Members who attended the ACCESS virtual investor day, which he commended as a very useful event for Members and invited Members to report back on any other training events they had attended:

- Dr Bartle, Cllrs Taylor and Hiscock – all reported that they had attended the LGPS Fundamentals course and that they felt it was beneficial.
- Ms Gowland recommended the Public and Private Pensions Summit as one of the best events she had attended.

#### **40. ACCESS JOINT COMMITTEE MINUTES - 6 SEPTEMBER 2021**

The minutes of the Access Joint Committee held on 6 September 2021 were received.

#### **41. GOVERNANCE - INTERNAL AUDIT PROGRESS REPORT**

The Panel and Board noted a report of the Director of Corporate Operations (item 7 in the Minute Book) updating the Pension Fund Panel and Board on the progress of the Internal Auditors' work programme for 2021/22. An audit has been completed on the administration of new members of the Pension Fund, showing substantial assurance in the controls in place. Further work is in progress for reviewing members leaving the Pension Fund, pensions payroll and benefit calculations, UPM (the pension administration software) and the Fund's governance.

#### **42. GOVERNANCE - PENSION FUND ADMINISTRATION UPDATE**

The Panel and Board noted a report of the Director of Corporate Operations (item 8 in the Minute Book) updating the Pension Fund Panel and Board on administration performance in the first six months of 2021/22 and other administrative issues.

Administration performance against key service standards is measured each month and in the first six months of 2021/22 Pension Services have delivered a 100% success rate against all standards and administration work has continued to be unaffected by the Covid-19 pandemic.

Employer year end returns are submitted to Pension Services and the data is then used to update pension records and produce annual benefit statements. Employers are measured for timeliness, financial control and data quality and any who are highlighted as a concern or who receive a red rating for data quality are required to complete a data validation exercise. Overall there has been a continued improvement in Employer performance for the Annual Returns process.

The Pension Regulator (TPR) requires schemes to complete an annual return providing details of the contributing employers and governance arrangements. Pension Services have demonstrated an improvement in both the common and conditional data scores which are reported annually to The Pension Regulator.

The McCloud remedy project work has continued in 2021/22. Data is required from all of the Pension Fund's 337 employers, of which 24 remain outstanding and excellent progress has been made in contacting all outstanding employers with the result being that all employers are now engaged and are aware of what they need to provide. The actual McCloud remedy and the accompanying legislation has yet to be confirmed. It is anticipated that significant further work will be required once the remedy and accompanying legislation are in place.

#### 43. **GOVERNANCE - PENSION FUND BUSINESS PLAN**

The Panel and Board received a report of the Director of Corporate Operations (item 9 in the Minute Book) presenting the proposed business plan and budget for 2022/23 to 2024/25. Following a review of the Pension Fund's approach to reporting its Business Plan, the report has been expanded to include a number of other reports, such as the training plan and risk register, to produce a more consolidated document that links the Pension Fund's activities to its budget. The Business Plan has also been expanded to importantly reflect that the majority of the Fund's activity is its business-as-usual, as well the more one-off, project-based activities that are captured in the traditional business plan.

The budget for 2022/23 to 2024/25 has been prepared to reflect the costs of delivering the Pension Fund's statutory responsibilities for the administration of the scheme and management of investments. The resources contained within the budget are sufficient to meet the Fund's regulatory requirements and deliver at the standards for administration that are reported to the Panel and Board.

RESOLVED:

- a) That the business plan and budget for 2022/23 to 2024/25 are approved.

#### 44. **GOVERNANCE - GOOD GOVERNANCE REVIEW UPDATE**



The Pension Fund Panel and Board received a report of the Director of Corporate Operations (item 10 in the Minute Book) providing an update on progress against the recommendations of the Scheme Advisory Board's (SAB) Good Governance Review including the Fund's documents for review that fulfil the requirements of the Good Governance review.

Since 2019, there have been three phases of the review, leading to the production of a series of recommendations. Phase 3 of the reporting was agreed in February 2021 and built on the recommendations agreed in 2019 with further input from a range of scheme stakeholders and an action plan for the SAB and MHCLG (as was). The recommendations to date have not yet been translated into statutory guidance by Government, however the Pension Fund has taken the opportunity to continue to review its current governance arrangements in line with the outcome of the Good Governance review.

The Good Governance Review has introduced the concept of a Senior Responsible Officer for each LGPS fund. The Senior Responsible Officer is responsible for the delivery of the LGPS function in its entirety, and be close enough to the running of the fund to have sight of all aspects of its business and be able to identify the necessary resources to deliver the business to the required standard. Following the changes to the Council's senior management structure, the Deputy Chief Finance Officer to the Pension Fund will be the Senior Responsible Officer for the Pension Fund. This role does not change the responsibilities of the CFO of the Pension Fund, which remains with the Director of Corporate Operations.

The Pension Fund's framework of governance documents now includes a Conflicts Policy following the best practice recommendations of the Good Governance Review. The proposed draft policy will require Pension Fund Panel and Board members and officers to complete a declaration of interest form each year.

Under the existing Funding Strategy Statement (FSS) and Employer Policy, 24 closed employers are on the Ongoing Orphan Funding Target (OOFT). These employers will leave orphan liabilities in the Fund when their last active member leaves as there is no ongoing employer to pay for those liabilities in the future. The Funding Strategy Statement, Investment Strategy Statement and Employer Policy have all been amended to reflect the review of the Fund's Actuary, Aon, who have reviewed funding target for employers on the OOFT.

RESOLVED:

The Pension Fund Panel and Board noted the Fund's progress against the SAB's Good Governance review in the Shadow Governance Compliance Statement and approved the following documents that form the Fund's Governance Framework:

- Conflicts of Interest Policy
- Funding Strategy Statement
- Employer Policy
- Administration Strategy Statement – including Decision Matrix

- Business Plan, including the Fund's Budget, Risk Register and Training Plan (included in item 9)
- Investment Strategy Statement
- Representation Policy
- Communication Policy Statement
- Governance Policy and Compliance Statement

45. **INVESTMENT - PENSION FUND CASH MONITORING REPORT AND ANNUAL CASH INVESTMENT STRATEGY 2022/2023**

The Panel and Board considered a report of the Director of Corporate Operations (Item 11 in the Minute Book) on the Pension Fund's cash balances and the Annual Cash Investment Strategy for those balances in 2022/23. The Annual Cash Investment Strategy has been prepared taking advice from the County Council's treasury management advisors Arlingclose into account.

As agreed by the Pension Fund Panel and Board on 12 February 2021, the Director of Corporate Operations reviews the Pension Fund's asset allocation to Protection assets on a quarterly basis, which is made up of Index-linked Gilts and cash. If the value of Index-linked Gilts is outside of the long-term strategic allocation of 22% by 5% (i.e. above 27% or below 17% of the total value of the Fund), the Pension Fund rebalances by adding to maintain the asset allocation to Protection assets. Since this change to the approach was agreed the actual allocation to Index Linked Gilts has remained above 17% of the Fund.

Officers recently approached Hymans Robertson for updated advice regarding this policy. As the Fund is approaching another actuarial valuation in 2022, there will be an opportunity at that time to review funding and investment plans. Hymans are of the opinion that taking potential actions now could potentially reduce the expected level of returns on the Fund's assets ahead of the valuation and any strategic review. Therefore, Hymans have recommended to suspend the rebalancing on index-linked gilts until the 2022 Actuarial Valuation has been completed or there is a marked improvement in long term inflation pricing.

**RESOLVED:**

- (a) The Annual Cash Investment Strategy for 2022/23 was approved.
- (b) The Annual Cash Investment Strategy for 2022/23 will be implemented from the date of this meeting for the remainder of 2021/22.
- (c) The Director of Corporate Operations is authorised to manage the Fund's cash balance in accordance with the policy set out in the report.
- (d) That the current policy on rebalancing Index-linked gilts be suspended.

46. **EXCLUSION OF THE PRESS AND PUBLIC**

**RESOLVED:**

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during

these items there would be disclosure to them of exempt information within Paragraphs 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

47. **CONFIRMATION OF THE EXEMPT MINUTES OF THE MEETING HELD ON 28 SEPTEMBER 2021**

The exempt minutes of the Pension Fund Panel and Board held on 28 September 2021 were confirmed.

48. **GOVERNANCE - CYBER SECURITY AND BUSINESS CONTINUITY**

The Panel and Board received an exempt report of the Director of Corporate Operations (Item 14 in the Minute Book) on the controls in place to ensure the security of the pension data held by the Hampshire Pension Fund. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

49. **INVESTMENT - INVESTMENT UPDATE**

The Panel and Board received an exempt report of the Director of Corporate Operations (Item 15 in the Minute Book) on the progress on the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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Chairman,

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