

Hampshire County
Council
Audit results report
Year ended 31 March 2019

12 July 2019



Private and Confidential

12 July 2019

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Hampshire County Council for 2018/19.

We have substantially completed our audit of Hampshire County Council for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3 before 31 July 2019. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 23 July 2019.

Yours faithfully

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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



01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented at the 21 February Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

- Changes in materiality: We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £39.2 million (Audit Planning Report – £38.2 million). This results in updated performance materiality, at 75% of overall materiality, of £29.4 million, and an updated threshold for reporting misstatements of £1.9 million.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

Status of the audit

We have substantially completed our audit of Hampshire County Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further issues may arise:

- Completion of procedures required regarding value for money;
- Conclusion on IFRS 9 and 16;
- Conclusion on valuation of assets not revalued in the year;
- Completion of income and expenditure testing (and associated BS accounts); some areas of pensions; PFI, payroll and reserves testing;
- Completion of our detailed review in certain areas of work and our final review and sign off;
- Review of the final version of the financial statements;
- Completion of subsequent events review;
- Receipt of the signed management representation letter and signed accounts; and
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

We expect to issue the audit certificate at a later date from the audit opinion on completion of WGA work.

We will provide an update on the status at the audit committee on 23 July 2019.

Executive Summary

Audit differences

At this stage of the audit, there are no unadjusted or adjusted audit differences arising. However until work is complete, further amendments may arise. We have identified audit differences in respect of the disclosures in the financial statements. Details can be found in Section 4 Audit Differences

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Hampshire County Council's financial statements. We summarise below the latest findings.

Significant Risk	Findings and Conclusions
Inappropriate capitalisation of revenue expenditure	We have completed our testing and found no indications that revenue expenditure has been inappropriately charged to capital.
Misstatements due to fraud or error	We have completed our testing and not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied.
Area of Audit Focus	Findings and Conclusions
Valuation of Land and Buildings	Our work on assets not revalued in year is in progress and not yet complete.
Pension Liability Valuation	We are completing our review but await the outcome of the McCloud judgment and the updated figures from the actuary to assess the impact on the accounts before concluding.
New Accounting Standards	We are in discussion with management regarding IFRS 9 and the option to irrevocably elect to account for equity instruments at fair value through other comprehensive income (FVOCI). Specifically whether the strategic pooled funds that HCC hold meet the definition of an equity instrument. This may have a material impact on the final numbers presented in the financial statements when concluded.

This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Executive Summary

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

We have tested controls as set out in Appendix A. There were no control deficiencies noted in our testing.

During the audit we identified scope for improving management's financial processes and controls as noted in Section 7 of this report. We will discuss with management and follow up progress as part of next years audit

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

Whilst we have not yet concluded our procedures in respect of value for money, at this stage of the audit, we have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement and the narrative statement for consistency with our knowledge of the HCC. We have no matters to report as a result of this work.

We are currently performing the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We will update you at the Committee meeting.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.

We have no matters to report.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Inappropriate capitalisation of revenue expenditure (risk of fraud in revenue and expenditure recognition)

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

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.

As such we associate this risk with capital additions.

What judgements are we focused on?

There is a risk that management will inappropriately capitalise revenue expenditure to improve the financial position of the general fund. Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges hitting the general fund, deferring the expenditure for 30+ years when the borrowing is repaid.

Due to the environment the Authority operates in there is motivation to improve the general fund balance.

As such we have focussed on significant additions to PPE and management's judgement as to what they recognise as capital and what they recognise as revenue spend.

What did we do?

We have extended our testing of items capitalised in the year by raising our combined risk assessment. This means we will identify a larger sample of key items, as our testing threshold will be lowered, and select a large representative sample through the use of our audit risk tables.

For significant additions (including capitalised labour (staff costs), borrowing costs and other acceptable costs) we examined invoices, capital expenditure authorisations, leases and other data that supported these additions and ensured that the items are capital in nature, and did not include revenue items.

We have designed additional journal tests to identify high risk journals that may be an indication of management override. We reviewed journals where management have capitalised expenditure outside the normal process. Specifically

- where management have posted to additions from outside the capital codes; and
- where management have manually posted to the capital codes from another expenditure code.

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition specific to inappropriate capitalisation.

Overall our audit work did not identify any issues or unusual transactions to indicate any misreporting of the Authority's financial position.



Areas of Audit Focus

Significant risk

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 (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

The risk of management override at the Authority is mainly through the possibility that management could override controls and manipulate in-year financial transactions that have an impact on the General Fund's medium to longer-term projected financial position.

The risk is focused in non-routine transactions as they are not protected by system controls and the robust segregation of duties in routine transactions. These non-routine and estimation transactions are also more subjective and therefore more susceptible to management override. We are specific that at the Authority, this risk only manifests itself in any estimates and judgements that impact the General Fund.

What did we do?

We enquired of management about risks of fraud and the controls put in place to address those risks.

We gained an understanding of the oversight given by those charged with governance of management's processes over fraud.

We performed mandatory procedures, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work, including carrying out testing on the Income and Expenditure accounts, and journal entry testing. We assessed journal entries for evidence of management bias and evaluate for business rationale.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside of the Authority's normal course of business



Areas of Audit Focus



Valuation methods applied

What is the risk/area of focus?

Valuation of Land and Buildings

Land and buildings is one of the most significant balances in the Authority's Balance Sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

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 2019 this totalled £1,284 million.

The information disclosed is based on the IAS 19 report issued by the actuary to the County Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

We have:

- Reviewed the instructions sent to, data used, and the report produced by, the in-house valuer;
- Challenged the assumptions used by the valuer by reference to external evidence;
- Reviewed managements assessment of assets not revalued in the year; and
- Tested the journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements.

Conclusion: We are yet to conclude on testing in relation to valuation of assets not revalued in the year. We have noted no issues in respect of the instructions provided to valuer or valuation of assets that have been valued in the year. We will provide an update to the Audit Committee on 23 July 2019.

We have:

- Liaised with the auditors of Hampshire Pension Fund and Hampshire County Council, to obtain assurances over the information supplied to the actuary in relation to HCC;
- Assessed the work of the LGPS Pension Fund actuary (AoN Hewitt) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within HCC's financial statements in relation to IAS19.

Conclusion: Our work on the pensions is still ongoing. We have considered the movement in PF asset values between the date of actuary estimate and year end - they are not material. We are awaiting revised figures as a result of the McCloud ruling. No issues have been noted thus far in our testing to suggest that the valuation has not been accurately processed and reflected in the financial statements. We will provide an update to the Audit Committee on 23 July 2019.



Areas of Audit Focus



New Accounting Standards

What is the risk/area of focus?

IFRS 9 financial instruments

This new accounting standard is applicable from the 2018/19 financial year and will change:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority accounting provides guidance on the application of IFRS 9

IFRS 15 Revenue from contracts with customers

This new accounting standard is applicable from the 2018/19 financial year.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The impact on Hampshire County Council accounting was deemed at planning to likely be limited as large revenue streams like council tax and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

What did we do?

We have:

- Assessed implementation arrangements on the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered whether relevant assets have been appropriately classified and valued;
- Reviewed new expected credit loss model impairment calculations for assets; and
- Ensured that additional disclosure requirements have been met.

Conclusion: Our work on IFRS 9 has not been concluded. There are conversations ongoing with management over the option to irrevocably elect to account for equity instruments at fair value through other comprehensive income (FVOCI) and specifically that the strategic pooled funds that HCC hold meet the definition of an equity instrument. This may have a material impact on the final numbers presented in the financial statements when concluded.

We have:

- Assessed implementation arrangements on the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered the application to revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Ensured that additional disclosure requirements have been met.

Conclusion: We have reviewed the impact assessment prepared by the Authority and concluded that the impact of IFRS 15 is not material for HCC and that revenue has been fairly recognised in the Financial Statements.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMPSHIRE COUNTY COUNCIL

Opinion

We have audited the financial statements of Hampshire County Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement; and
- The related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hampshire County Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the [authority/group] in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, [name of body] put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



Audit Report

Our opinion on the financial statements

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer Responsibilities set out on page 30, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Hampshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Hampshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Hampshire County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

This report is made solely to the members of Hampshire County Council as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
23 July 2019

The maintenance and integrity of the Hampshire County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences





Audit Differences – to be updated on completion of our work

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

Summary of adjusted differences

Subject to completion of the audit, apart from minor typographical errors, there were no misstatements above our nominal amount that required adjustment by management.

Summary of unadjusted differences

We highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. Management have agreed to adjust these and we expect these to be updated upon receipt of the final draft of financial statements and will update the Joint Audit Committee on 23 July.

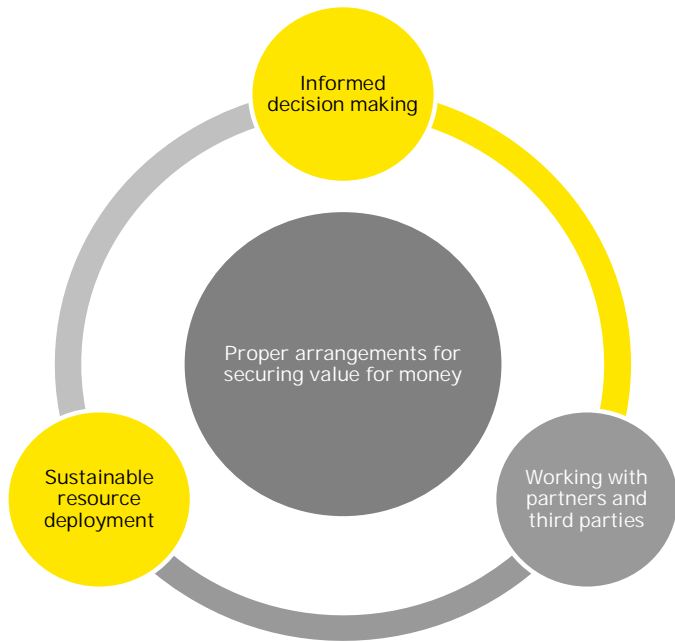
Uncorrected disclosure misstatements

We identified that there is a new requirement in the 2018/19 CIPFA to present a reconciliation of liabilities arising from financing activities. The client has not made this disclosure in the first draft of the accounts received but we expect this to be amended in final draft.



05

Value for Money Risks



Background

We are required to consider whether the HCC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on their use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We did not identify any significant risks around these criteria at the planning stage of the audit

Although our work is still to be concluded to confirm our risk assessment at planning is still appropriate, we expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

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

Whole of Government Accounts

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

We are yet to complete our work on Whole of Government Accounts and audit certificate will be issued on completion.

Other reporting issues

Other powers and duties

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

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

To date there are no significant issues to report. We will update this on completion of our work.



07

Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority have put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware but we do raise one recommendation in respect of journal authorisation as can be seen on the next slide.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2018/19 audit (including IT controls). We will discuss with management and follow up as part of 2019/20 audit..

	High	Moderate	Low	Total
Open at 01 April 2018	0	0	0	0
Closed during FY18/19	0	0	0	0
New points raised in FY18/19	0	0	1	1
Total open points as at 31 March 2019	0	0	1	1

- Key:
- A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
 - Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.
 - Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Assessment of Control Environment

Area	Journals	Rating
Observation	<p>We note that there is no 'official' authorisation process in place when processing journals therefore a team member could post an erroneous/fraudulent journal which may not be identified.</p> <p>We are aware that budget holders perform a review of their budgets on a regular basis however no evidence is kept on file of this review so there is no way to confirm that they have completed it.</p> <p>We recommend that HCC implement a journal approval process to reduce likelihood of inaccurate or inappropriate journals being processed.</p> <p>In addition we recommend that HCC put in place procedures to evidence the review the budget holders complete to enhance this control and in order to demonstrate it operates effectively.</p>	Low
Management comment		

Reliance on internal audit

We have reviewed Internal Audit reports issued to management during the period to July 2019 and selected working papers to ensure that any financial statement risks identified are considered in determining the extent of our audit procedures.



08 Data Analytics



Use of Data Analytics in the Audit

▶ Data analytics

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

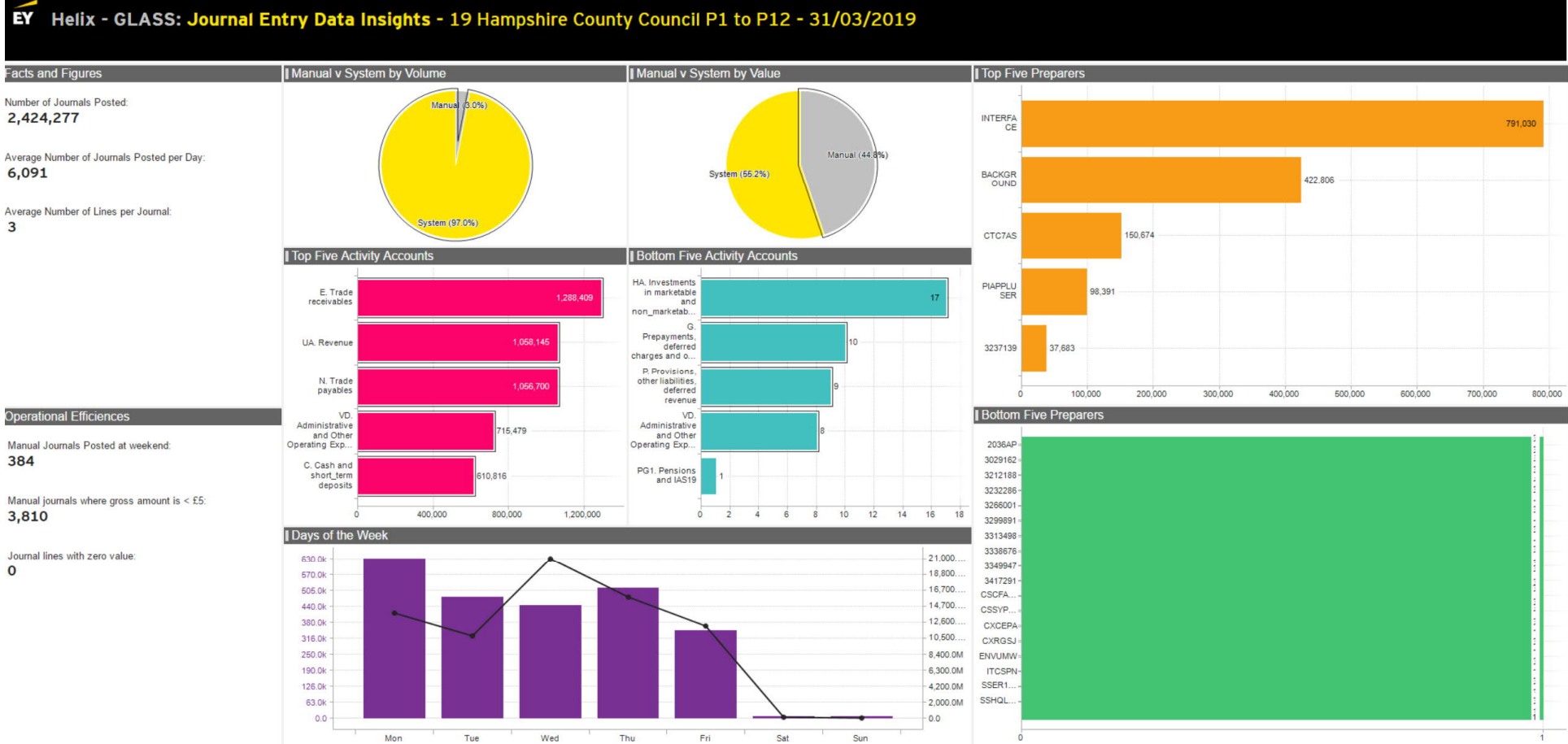


Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





Journal Entry Testing

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2019

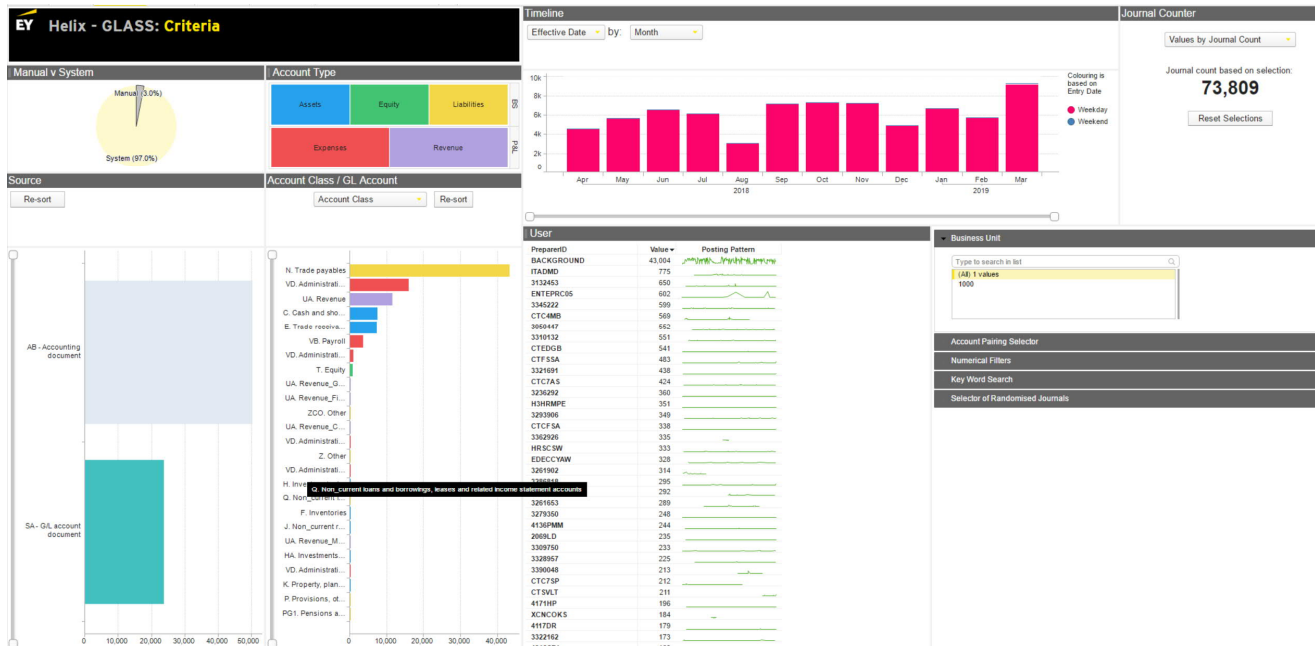
What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.



What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



09

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated 22 January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 23 July 2019.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), the Authority, their directors and senior management and affiliates, including all services provided by us and our network to the Authority, their directors and senior management and affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

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

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Non audit services relate the Readiness Assessment and independent Service Organisation Controls Type 1 Assurance Report for the Hampshire Integrated Business Centre (IBC) only. The fee is being funded by the Shared Services Partnership not directly by Hampshire County Council

	Final Fee 2018/19	Scale Fee/ Planned Fee 2018/19	Final Fee 2017/18
	£	£	£
Total Audit Fee	89,720	89,720	116,519
Total Non-Audit Services	43,000	43,000	0
Total Fees	132,720	132,720	116,519

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, white, blue, green) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

10 Appendices





Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet/s and any changes to this approach from the prior year audit.



Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category 	Audit Approach in current year 	Audit Approach in prior year 	Explanation for change 
Trade receivables	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	No change
Trade payables	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	No change
Tangible fixed assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Cash	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change

Appendix B

Summary of communications





Date 	Nature 	Summary 
January 2019	Report	The audit planning report, including confirmation of independence, was issued to the Audit Committee.
January 2019	Meeting	The Associate Partner and Manager met with the Audit Committee and senior members of the management team to discuss the audit planning report.
May 2019	Meeting	The Manager met with the Audit Committee and senior members of the management team to discuss the progress of the audit.
July 2019	Meeting	Audit close meeting with the management team to discuss the preliminary findings of the audit.
July 2019	Management letter	The management team and the audit committee were provided details of internal control observations made in respect of the current year.
July 2019	Report	The audit results report, including confirmation of independence, was issued to the Audit Committee.
July 2019	Meeting	The Associate Partner and Manager, met with the Audit Committee and senior members of the management team to discuss the audit results report.

In addition to the above specific meetings and letters the audit team including the partner in charge of the audit met with the management team multiple times throughout the audit and held calls to discuss audit findings and specific technical issues around IFRS9, McCloud, PPE etc.




Appendix C

Required communications with the Audit Committee





There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the 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.	Audit planning report presented at the Audit Committee 21 February 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented at the Audit Committee 21 February 2019
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process • Findings and issues regarding the opening balance on initial audits 	Audit results report presented at the Audit Committee 23 July 2019





Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Hampshire County Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report presented at the Audit Committee 23 July 2019
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report presented at the Audit Committee 23 July 2019




Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Audit results report presented at the Audit Committee 23 July 2019
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report presented at the Audit Committee 21 February 2019 and Audit results report presented at the Audit Committee 23 July 2019

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the 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 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report presented at the Audit Committee 23 July 2019

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report presented at the Audit Committee 23 July 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report presented at the Audit Committee 23 July 2019
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report presented at the Audit Committee 23 July 2019
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report presented at the Joint Audit Committee 21 February 2019 Audit results report presented at the Audit Committee 23 July 2019

Management representation letter

Management Rep Letter

This letter of representations is provided in connection with your audit of the financial statements of Hampshire County Council ("the Council") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Hampshire County Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date].

Management representation letter

Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. Other than the events described in Note [X] to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

H. Reserves

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

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the fair value of property, plant and equipment and the IAS 19 actuarial valuations of pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

Pensions Liability and PPE Valuations Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Chief Financial Officer

Chairman of the Audit Committee

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