

Hampshire County Council Audit results report

Year ended 31 March 2020

21 September 2020



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working world



Private and Confidential

21 September 2020

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 2019/20.

We have substantially completed our audit of Hampshire County Council (HCC) for the year ended 31 March 2020.

As set out on pages 5 and 6 a number of issues have arisen as a result of covid-19 which will impact on our audit opinion

Subject to concluding the outstanding matters listed in this report, we confirm that we expect to issue an unqualified audit opinion on the financial statements.

As part of those concluding procedures may contain emphasis of matter paragraphs relating to Property, Plant & Equipment and Investment Property Valuation and Going Concern, in the form at section 4 before the accounts publication date.

We 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 Council, 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 30 September 2020.

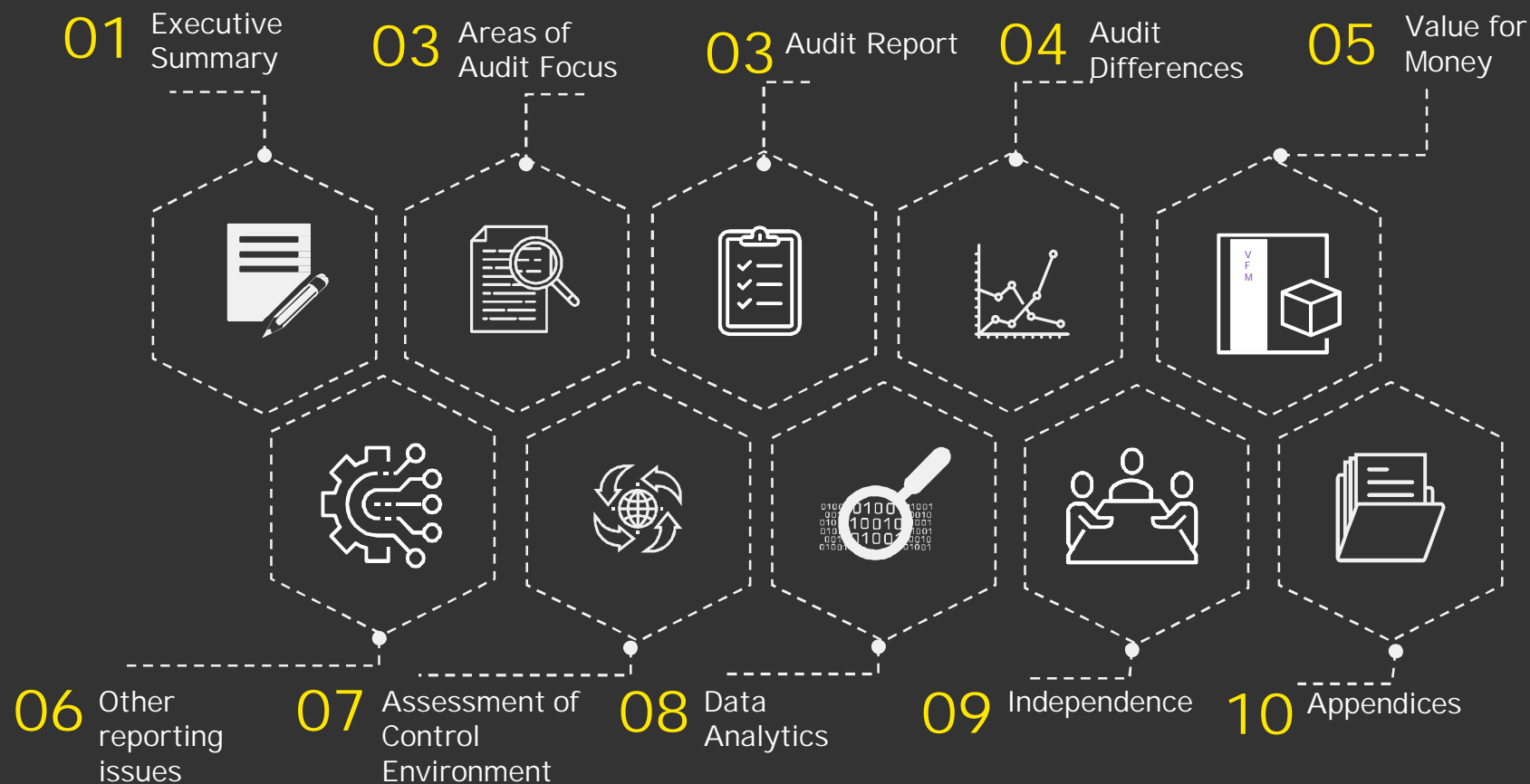
Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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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.psaa.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

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 tabled at the 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, with the following exceptions:

Changes to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

As set out in our Progress Report presented to the July Audit Committee there were a number of changes to our risk assessment as a result of Covid-19 including:

- Valuation of Land & Buildings & Investment Property- The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment. We also considered the impact of Covid-19 on the investment property market and as such identified this as a separate significant risk.
- Disclosures on Going Concern – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance.
- Events after the balance sheet date – We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic may need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Authority.
- Adoption of IFRS16 – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality: In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £39.9 million, with performance materiality, at 75% of overall materiality, of £29.9 million, and a threshold for reporting misstatements (nominal amount) of £1.9 million. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

The basis of our assessment has remained consistent with prior years at 1.8% of gross expenditure on services.

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.

Executive Summary

Scope update

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 36.

Audit differences

We identified two audit differences identified by EY that management has not adjusted in relation to valuation of land and buildings. The net impact of unadjusted audit difference is a debit of £4.3 million to the Balance Sheet. We agree with management that this is not material
We noted one prior year adjustment that has been processed by management due to a typographical error in the prior year. See page 28 for further detail.

Executive Summary

Status of the audit

We have substantially completed our audit of HCC's financial statements for the year ended 31 March 2020 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 4. However until work is complete, further amendments may arise.

The outstanding items are:

- Review of final sample documentation that has provided by the finance team this week.
- Receipt and review of going concern assessment covering 12 months from the anticipated date of the auditor report
- Receipt and review of final report from EY Valuation experts on investment property
- Receipt and review of final report from internal PFI expert on streetlighting model
- Completion of mandatory internal consultation on going concern
- Receipt of results of work performed on IAS 19 by Pension Fund Auditor
- Receipt and review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter – template to be provided by EY
- Final review procedures by senior manager and associate partner
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

EY are currently delaying signing audit opinions for authorities with material Dedicated Schools Grant balances. We understand either further guidance may be produced by CIPFA, or a statutory override by MHCLG. Either of these is expected to change the accounting requirements for the 2019/20 accounts.

Our audit opinion may emphasise the following:

Property Plant & Equipment ("PPE") and Investment Property valuation – including an emphasis of matter paragraph on valuation material uncertainty to draw the reader of the account's attention to HCC's disclosures on the 'material uncertainty' caveat included in its year end asset valuation report and disclosed by management in the estimation uncertainty disclosure note.

Going concern – including an emphasis of matter paragraph on going concern as a result of COVID-19 drawing the attention of a reader to the authority's going concern disclosure which will explain why HCC consider it likely that they will continue as a going concern in light of the impacts of C-19.

We will not be issuing the audit certificate at the same time as the audit report due to the timing of the Whole of Government Accounts ("WGA") submission and assurance work.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of HCC's financial statements. 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 "Key Audit Issues" section of this report.

Audit findings and conclusions: Misstatements due to fraud or error

- We have no findings to report to the Audit Committee

Audit findings and conclusions: Inappropriate capitalisation of revenue expenditure

- We have no findings to report to the Audit Committee.

Audit findings and conclusions: Investment property valuation

- In line with guidance by RICS, valuers have included a material uncertainty clause in their valuation report. We have engaged EY Valuation experts to assist in the testing of investment properties given this material uncertainty due to the fact that more valuer judgement is required as there is less transactional evidence to support market assumptions. We are still awaiting the final report on their results.
- We have ensured that this material uncertainty is appropriately disclosed in the financial statements. We may include an emphasis of matter paragraph in our audit report which draws the readers attention to these disclosures given it is a material item on the Balance Sheet.

Audit findings and conclusions: PPE valuation

- We have noted two audit differences in respect of valuation of land and buildings which have not been corrected by management. The net impact of the proposed misstatement increases the value of assets by £4.3 million.
- In line with guidance by RICS, internal valuers have included a material uncertainty clause in their valuation report. We have engaged EY Valuation experts to assist in the testing of assets valued using the Existing Use Value (EUV) valuation method given they are more susceptible in fluctuations in the market. No issues were noted in their testing.
- We have ensured that this material uncertainty is appropriately disclosed in the financial statements. We may include an emphasis of matter paragraph in our audit report which draws the readers attention to these disclosures given it is a material item on the Balance Sheet.

Executive Summary

Areas of audit focus - continued

Audit findings and conclusions: IAS 19 Pension Accounting

- We are awaiting the final results of the work performed by the Pension Fund Auditor.
- We are satisfied that the actuary has taken into consideration the impacts of McCloud and that the impacts of 'Goodwin' would not be material for HCC.
- Our procedures to date have not noted any issues to be brought to the attention of the Audit Committee.

Audit findings and conclusions: New Accounting Standard

- As noted on page 5, the implementation of IFRS 16 has been deferred to 1 April 2021 and therefore no further procedures are required by EY for 2019/20.

Audit findings and conclusions: Private Finance Initiatives

- We have engaged internal experts to perform a review of the streetlighting PFI Model – this work has not yet concluded.

Audit findings and conclusions: Going Concern Disclosure

- We are awaiting final cashflows from management covering a minimum of 12 months from anticipated date of signing statement of accounts
- We may include an emphasis of matter paragraph in our audit report which draws the readers attention to these disclosures in light of Covid-19.

Audit findings and conclusions: post balance sheet events (PBSE)

- We have reviewed the disclosures in the Statement of Accounts for HCC to ensure they sufficiently disclose the impact of Covid-19. As at the date of this report, no events have been identified that required disclosure as a PBSE.



Executive Summary

Areas of audit focus, continued

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
- 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.

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.

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. In our Audit Planning Report we reported that we had not identified any specific significant risks, this remains unchanged.

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 for consistency with our knowledge of HCC, including whether it adequately reflects the impact of COVID-19. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. However Treasury has extended the reporting timetable for WGA so we may not certify completion of the audit at the same time as issuing the audit opinion.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.



02 Areas of Audit Focus



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 HCC 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 authorities, 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 tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed accounting estimates for evidence of management bias; and
- We evaluated the business rationale for any significant unusual transactions
- We utilised our data analytics capabilities to assist with our work, including 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.

Our journal testing did not identify any journal entries without a valid business purpose.

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





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.

What judgements are we focused on?

There is a risk that management will inappropriately capitalize revenue expenditure to improve the financial position of the general fund. Capitalized revenue expenditure can be funded through borrowing with only minimal minimum revenue provision ("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 could be incentive to improve the general fund balance.

As such we have focussed on significant additions to PPE and managements 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 capitalized 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.

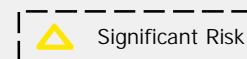
For significant additions (including capitalized labour (staff costs), borrowing costs and other acceptable costs) we examined invoices, capital expenditure authorizations, leases and other data that supported these additions and ensured that the items are capital in nature, and did not include revenue 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 capitalized 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 including ny PPE additions which have been inappropriately capitalised and should have been charged to revenue.

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





Areas of Audit Focus

Significant risk

Valuation of investment properties

What is the risk?

Covid-19 was declared a global pandemic on 11 March 2020 and since March, Covid-19 has had an impact on the investment property market. There has been an impact on the occupation of buildings due to forced closures and rental income is expected to fall as tenants default on their rents.

In addition, valuers are including 'material valuation uncertainty' clauses in their valuation reports which indicate that there is less certainty over the valuations, and more valuer judgement is required as there is less transactional evidence to support market assumptions.

What judgements are we focused on?

We have focussed our testing on the inputs into and assumptions made in the valuation method. The valuation is calculated over the total property value using the income approach, specifically the Direct Capitalisation method.

This involves first making an assessment of Market Rent using the comparable or market approach, having regard to leasing transactions of similar assets.

The valuer then capitalizes the existing passing rent at an appropriate, risk adjusted 'yield' before reverting to the Market Rent at an appropriate point in the future – either lease renewal or rent review, or upon letting if the space is currently vacant.

Allowances are made for letting voids, tenant incentives, capex and non-recoverable costs as appropriate.

What did we do?

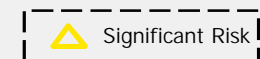
We have engaged EY Valuations Experts to provide assistance in determining that the methodology used in the valuation is appropriate and testing each of the significant assumptions used in the valuation. We also reviewed the disclosures made in relation to the material uncertainty caveat to ensure they were sufficient.

What are our conclusions?

We are awaiting the final report from EY Valuations Experts who are assisting in the valuation testing of investment properties.

We have reviewed the disclosures included in the estimation uncertainty disclosure note to ensure they adequately reflect the material uncertainty caveat noted by the valuer.

Due to the inclusion of material uncertainty paragraphs in the RICs valuers report, we may include an Emphasis of Matter paragraph in our audit report. This is not a qualification, but draws attention to your disclosures regarding this issue for the readers understanding of the accounts.





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 HCC'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.

What did we do?

We have:

- Considered the competence, capability and objectivity of the Authority's valuer;
- Considered the scope of the valuer's work;
- Ensured land and building assets have been revalued within a 5 year rolling programme as required by the Code;
- Considered if there are any specific changes to assets that should have been communicated to the valuer;
- Sample tested key inputs used by the valuer when producing valuations (for example cost, area, fees);
- Considered the results of the valuer's work and engaged EY Valuation experts to assist in testing the valuation of assets valued using the Existing Use Value (EUV) method;
- Challenged the assumptions used by the valuer by reference to external evidence;
- Tested journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;
- Tested a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct; and
- Reviewed assets that are not subject to valuation in 2019/20 to confirm the remaining asset base is not materially misstated.
- Reviewed the disclosures to ensure they adequately disclose the material uncertainty caveat included in the valuers report as a result of Covid-19.

Conclusion: We noted a difference in our analysis of assets not revalued in the year and also a difference in our testing of assets that had been valued in the year that was above our nominal amount, therefore we have recorded a misstatement. Having considered the impact on the full population, the net difference of these adjustments is £4.3 million that has not been adjusted.

No issues were noted in testing of EUV assets.

Due to the inclusion of material uncertainty paragraphs in the RICs valuers report, we may include an Emphasis of Matter paragraph in our audit report. This is not a qualification, but draws attention to your disclosures regarding this issue for the readers understanding of the accounts.

We have reviewed the disclosures included in the estimation uncertainty disclosure note to ensure they adequately reflect the material uncertainty caveat noted by the valuer.



Areas of Audit Focus



Valuation methods applied

What is the risk/area of focus?	What did we do?
<p>Pension liability valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the CC 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 balance sheet.</p> <p>At 31 March 2020 this totalled £1.5 billion. 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.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hampshire Constabulary (note this has not yet concluded); • Assessed the work of the Hampshire 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 of this report by the EY actuarial team; and • Reviewed and tested the accounting entries and disclosures made within HCC's financial statements in relation to IAS19. • Reviewed the adjustments in respect of the McCloud ruling and determined the calculation was reasonable. • Reviewed the assessment by management that the latest rulings in relation to 'Goodwin' and confirmed that the impact is not material to HCC. <p>Conclusion: We have no issues to raise in respect of the pension liability valuation.</p>
<p>Private Finance Initiatives</p> <p>The Council has 2 PFI contracts in place, in respect of waste and street lighting, with liabilities amounting to £170 million in 2019/20. These were both operational and recognised in the Council's balance sheet as at 31 March 2020.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Involved EY specialists in this area to ensure accounting treatment proposed by the Council is appropriate. <p>This work will include analysis of the contracts and review and consideration of the financial model.</p> <p>Conclusion: The work being conducted by EY specialists has not yet concluded as management have had difficulty identifying historic papers due to remote working rules. All queries have now been responded to and we expect to provide a verbal update to the Audit Committee. We have no issues to raise at this stage of our testing.</p>



Areas of Audit Focus

What is the risk/area of focus?	What did we do?
<p>Going Concern</p> <p>ISA 570 was revised in September 2019. The revised standard increases the work we are required to perform when assessing whether an entity is a going concern and means UK auditors will follow significantly stronger requirements than those required by current international standards. Whilst the standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, EY have revised current audit procedures, recognising the importance of the forthcoming revisions.</p> <p>Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance</p>	<p>Procedures we are performing:</p> <ul style="list-style-type: none">• Obtaining Management's going concern assessment and reviewing for any evidence of bias and consistency with the accounts;• Reviewing the financial modelling and forecasts prepared by HCC. We considered and tested key assumptions, focusing on the reasonableness of the liquidity forecasts up to a date of 12 months after the signing date of the accounts and opinion. This assessment therefore needs to extend beyond the 2020/21 financial year, and into 2021/22;• Ensuring that an appropriate going concern disclosure has been made within the financial statements;• Reviewing the HCC's approach to identifying and disclosing events after the balance sheet date; and• Considering the impact on our audit report and complying with EY consultation requirements. <p>Conclusion: Our work on going concern has not yet concluded – we will provide a verbal update at the Audit Committee on our progress in this area.</p> <p>We note the Cabinet report in July 2020 raises significant issues regarding the financial resilience of the Council in the medium term financial period. Therefore, when completed we will consider whether it is necessary to include an Emphasis of Matter paragraph in our audit report relating to the financial and operational impacts of Covid-19.</p>



03 Audit Report



Audit Report

Draft audit report – example only

Note this is an illustrative draft of the audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO HAMPSHIRE COUNTY COUNCIL

Opinion

We have audited the financial statements of Hampshire County Council for the year ended 31 March 2020 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;
- Hampshire Pension Fund Account Statements; and
- 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hampshire County Council as at 31 March 2020 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 2019/20.

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 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.

Emphasis of matter – Disclosures in relation to the effects of Covid-19

We draw attention to Note X of the financial statements, which describes the financial and operational consequences the Authority is facing as a result of Covid-19. Our opinion is not modified in respect of this matter.

Emphasis of matter – Material uncertainty regarding the valuation of Property

We draw attention to Note X of the financial statements, which describes the valuation uncertainty the Authority is facing as a result of Covid-19 in relation to property valuations. Our opinion is not modified in respect of this matter.

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 Finance Officer use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance 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 are independent of the authority in accordance with the ethical requirements for issue.

Other information

The other information comprises the information included in the narrative report set out on pages 3 to 31, other than the financial statements and our auditor's report thereon. The Chief Finance 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



Audit Report

Draft audit report - example only

Our opinion on the financial statements

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Hampshire County Council, put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 Authority;
- 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

Responsibility of the Director of Chief Finance Officer

As explained more fully in the Statement of the Chief Finance Officer Responsibilities set out on page 32, the Chief Finance 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing Hampshire County Council'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.

Hampshire County Council 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



Audit Report

Draft audit report - example only

Our opinion on the financial statements

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 Authority'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 C&AG in November 2017, as to whether the Authority 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 C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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, 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.



04 Audit Differences



Audit Differences

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 audit differences

We highlight the following misstatements greater than £2.1 million were identified during the course of our audit that have not been adjusted by management:

- We noted a difference in our analysis of assets not revalued in the year that was above our nominal amount therefore we have recorded as a misstatement for £7 million. The difference arises due to management performing an indexation exercise as at 1 April 2019. Our view is that this should be done as at the year end date, 31 March 2020. We also noted a difference in our testing of assets that had been valued in the year, which would reduce the value of PPE by £3 million. We have considered the impact of these over the full population, as appropriate. The net impact of these adjustments is £4.3 million and as such management have chosen not to adjust due to materiality. This is highlighted on page 15.

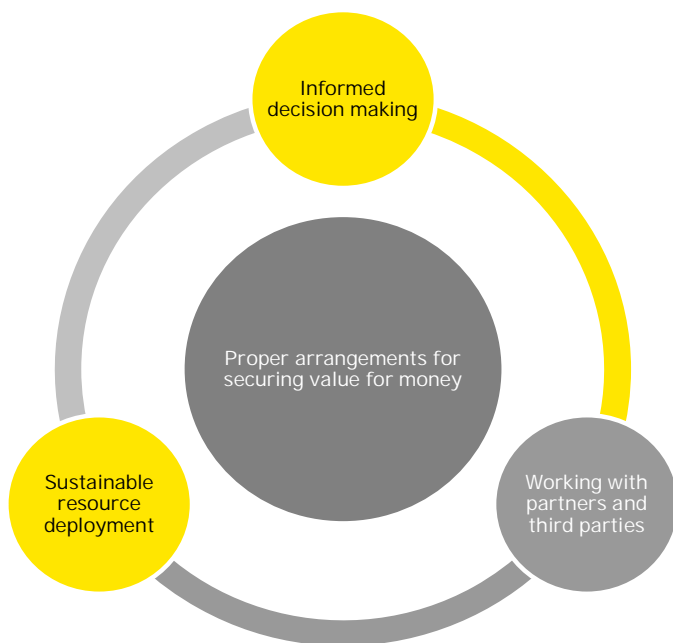
There were also a number of disclosure misstatements that were identified by EY and updated by management.

As we have not concluded on our audit procedures there may be further differences identified. We will communicate any further findings to the Audit Committee.



05

Value for Money



Background

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

For 2019/20 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.

Impact of Covid-19 on our Value for Money assessment

On 16 April 2020, the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 Value for Money arrangements conclusion.

Overall conclusion

We did not identify any significant risks around these criteria

We therefore expect to have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

As noted on page 17, we are aware of the report to the Council's Cabinet in July 2020 raising concerns over the financial resilience of the Council over the medium term period as a result of the Covid-19 challenges. We consider this pressure came after the year-end, and the arrangements during the 2019/20 year were appropriate. We expect that the arrangements to address this challenge will form part of our audit considerations during 2020/21.



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 2019/20 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 2019/20 [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. However, instructions are yet to be received.

Treasury has extended the reporting timetable for WGA so we may not certify completion of the audit at the same time as issuing the audit opinion.

We will report any matters arising to the Audit Committee.

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 reporting 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 HCC'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;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Consideration of laws and regulations; and
- Group audits

We have no significant findings to communicate.

Prior year adjustments

In the course of the audit we identified the following prior year adjustment:

HCC recognised £51.3m in their Grants Credited to Service note in the 2018/19 accounts. However there was a typographical error on inputting this figure into the financial statements, whereby this figure was entered as a positive figure when it should have been a negative. The total for Grants Credited to Services in the 2018/19 Accounts is £866.5m. This figure should have been £1,008m.

We are in the process of ensuring that the disclosures around the adjustment are sufficient in the 2019/20 accounts.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of HCC 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 HCC has 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. As we have adopted a substantive approach (with some reliance on the ISAE 3402 report on the Hampshire IBC), we have therefore not tested the operation of any controls.

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.

We considered whether circumstances arising from C-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention/details of issues noted.



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 2019/20 our use of these analysers in HCC'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.

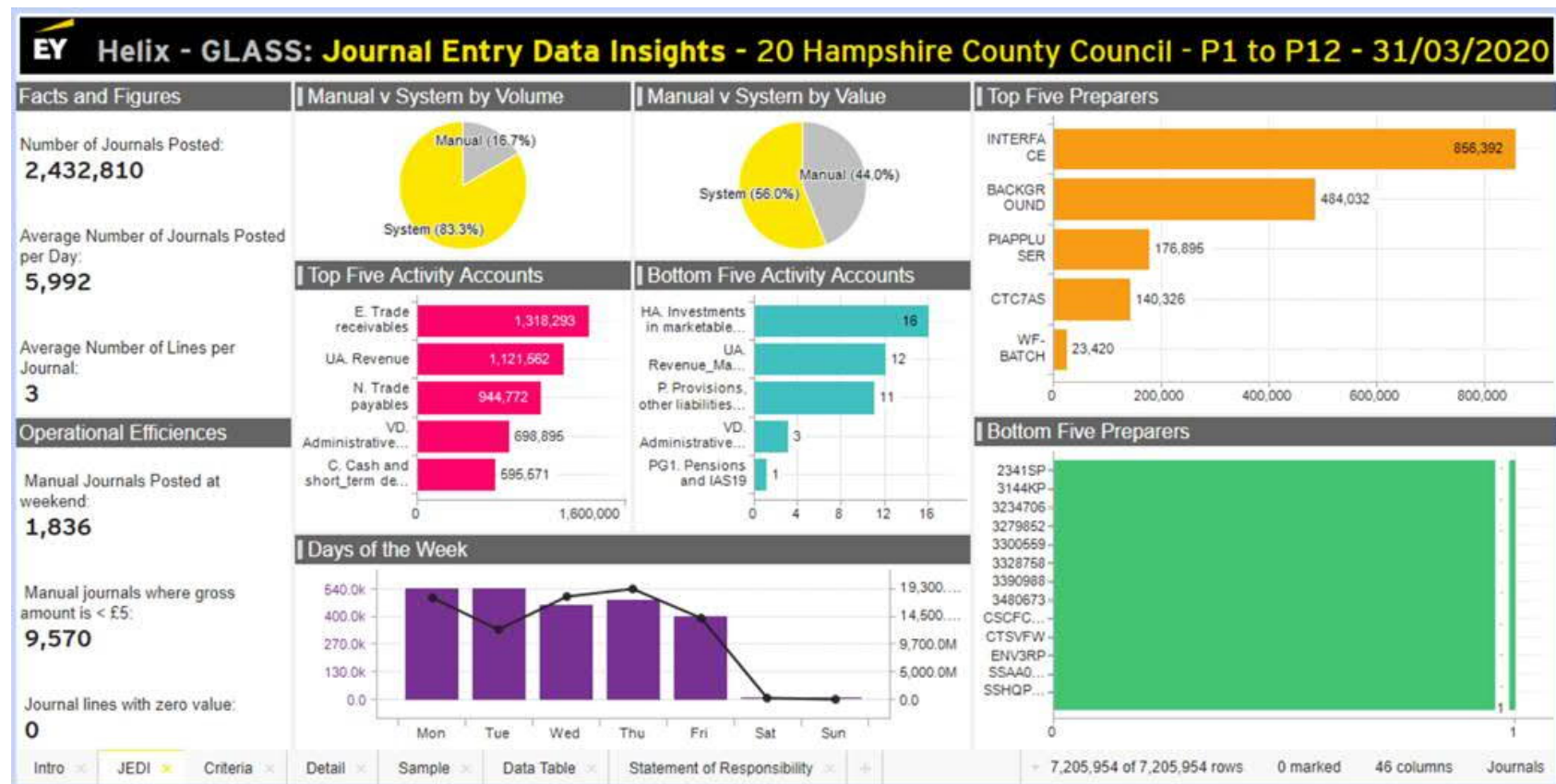


Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2019/20. 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 2020

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 and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 28 January 2020.

We complied with the APB Ethical Standards. 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 that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 30 September 2020.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have undertaken non-audit work to provide an ISAE 3402 Report on the IBC. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2018/19 £	Planned Fee 2019/20 £	Final Fee 2019/20 £
Total Audit Fee – Code work	91,570*	89,720	TBC
Non-audit Fee	43,000		56,500

2019/20 Fees:

We are not yet able to provide a final fee for the 2019/20 audit. This is for two reasons:

- The audit as not fully complete, as noted in the list of outstanding procedures set out on page 7 of this report.
- We have not been able to conclude our fee discussions with PSAA regarding the rebasing of the scale fee, as we discussed at the previous Audit Committee, and previously with management on 19 May 2020.

The areas in which we have completed additional work and as such we will be proposing a fee variation to the base scale fee are:

- Land & Buildings & Investment Property – including additional work required on RICS related material uncertainty related to Covid-19
- Going concern assessment and disclosure
- EY consultation on auditor's report on the statements involving EY professional practice directorate to ensure the auditor's report is appropriate.

Once we have completed the audit will we assess the final fee, discuss with management and provide an update to the Audit Committee.

* the variation to 18/19 scale fee is still subject to approval by PSAA

Relationships, services and related threats and safeguards



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

There are no relationships from insert start of financial year to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

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 2019:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf



10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet 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 relied on the ISAE 3402 report on the IBC to rely on controls 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	The ISAE 3402 report was commissioned by the IBC for the first time for the year 31 March 2020.
Tangible Fixed Assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Trade payables	We relied on the ISAE 3402 report on the IBC to rely on controls 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	The ISAE 3402 report was commissioned by the IBC for the first time for the year 31 March 2020.
Cash, borrowings and investments	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Pension Liability	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change

Appendix A

Audit approach update - continued

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
PFI	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Developers Contributions	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Grants Received in Advance	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change

Appendix B

Summary of communications




Date 	Nature 	Summary 
January 2020	Report	The Audit Planning Report, including confirmation of independence, was issued to the Audit Committee.
February 2020	Meeting	The Associate Partner and Senior Manager met with the Audit Committee and senior members of the management team to discuss the Audit Planning Report.
July 2020	Report	An Audit Progress report was issued to the Audit Committee
July 2020	Meeting	The Associate Partner met with the Audit Committee and senior members of the management team to discuss the progress of the audit and implications of Covid-19 on proposed audit strategy.
September 2020	Report	The Audit Results Report, including confirmation of independence, was issued to the Audit Committee.
September 2020	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, 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 met with the management team multiple times throughout the audit to discuss audit findings.





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 dated 28 January 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report dated 28 January 2020
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 	This Audit results report




Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the audit committee include:</p> <ul style="list-style-type: none"> • A declaration of independence • The identity of each key audit partner • The use of non-member firms or external specialists and confirmation of their independence • The nature and frequency of communications • A description of the scope and timing of the audit • Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits • Materiality • Any going concern issues identified • Any significant deficiencies in internal control identified and whether they have been resolved by management • Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee • Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof • The valuation methods used and any changes to these including first year audits • The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework • The identification of any non-EY component teams used in the group audit • The completeness of documentation and explanations received • Any significant difficulties encountered in the course of the audit • Any significant matters discussed with management • Any other matters considered significant 	<p>Audit planning report dated 28 January 2020 And This Audit results report</p>




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 	<p>This Audit results report</p> <p>No conditions or events were identified, either individually or together to raise any doubt about HCC's ability to continue for the 12 months from the date of our report</p>
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 	This Audit results report
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. 	Attending Audit Committee – 30 September 2020
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. 	<p>Formal enquiry letter sent and response received from Chair of Audit Committee.</p> <p>and</p> <p>This Audit results report</p>

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 	This Audit results report
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. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: <ul style="list-style-type: none"> • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	Audit planning report dated 28 January 2020 and This Audit results report

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
	<ul style="list-style-type: none"> Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy Details of any contingent fee arrangements for non-audit services Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
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. 	This Audit results report

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 	This Audit results report
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 	This Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	This Audit results report
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 dated 28 January 2020 This Audit results report
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Certification Report

Management representation letter

Management Representation Letter – to be finalised on completion of all outstanding audit procedures

Ernst & Young LLP

Grosvenor House,
Grosvenor Square,
Southampton SO15 2BE,
United Kingdom

This letter of representations is provided in connection with your audit of the financial statements of Hampshire County Council for the year ended 31 March 2020. 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 Authority financial position of Hampshire County Council as of 31 March 2020 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 2019/20.

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 2019/20.

2. We acknowledge, as members of management of the Authority, 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 Authority in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. 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 authority, we believe that the Authority 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 2019/20, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and have therefore not adjusted them.

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

1. We acknowledge that we are responsible to determine that the Authority'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 disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Authority (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance

Management representation letter

Management Rep Letter

matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Authority'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 Authority'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 all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic
3. have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committees held through the period to the most recent meeting on the following date: [list date].
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority'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 year 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 Authority 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.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate

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.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 25 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events subsequent to period end, including events related to the COVID-19 pandemic, which require adjustment of or disclosure in the financial statements or notes thereto.

Management representation letter

Management Rep Letter

F. Other information

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

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment properties and in generating the IAS19 pension disclosures 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.

H. Estimates

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 CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making valuation of assets and IAS19 disclosure 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, including the effects of the COVID-19 pandemic on the valuation of assets and IAS19 disclosure and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic

I. 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.

Signed on behalf of Hampshire County Council

I confirm that this letter has been discussed and agreed by the Audit Committee
Signed:

Position: Chief Finance Officer

Date:

Position: Chairman of the Audit Committee



Date:

Appendix H

Accounting and regulatory update



Accounting update

Since the date of our last report to the Audit Committee, a number of new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on HCC 
IFRS 7/IFRS 9 – Financial Instruments [hedge accounting]	<ul style="list-style-type: none">Amendments regarding pre-replacement issues in the context of the Interest Rate Benchmark (IBOR) reform	<ul style="list-style-type: none">Effective for periods beginning on or after 1 January 2020

Future accounting developments



Since the date of our last report to the Audit Committee, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on HCC 
IFRS 16	<ul style="list-style-type: none">The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.	<ul style="list-style-type: none">Management should resume impact assessment for year ended 31 March 2021 ahead of adoption on 01 April 2021.

Appendix H

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on HCC 
Code of Audit Practice 2020	<ul style="list-style-type: none">The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	<ul style="list-style-type: none">The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none">The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020.This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	<ul style="list-style-type: none">Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage.Further updates will be provided when possible.

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ED None

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