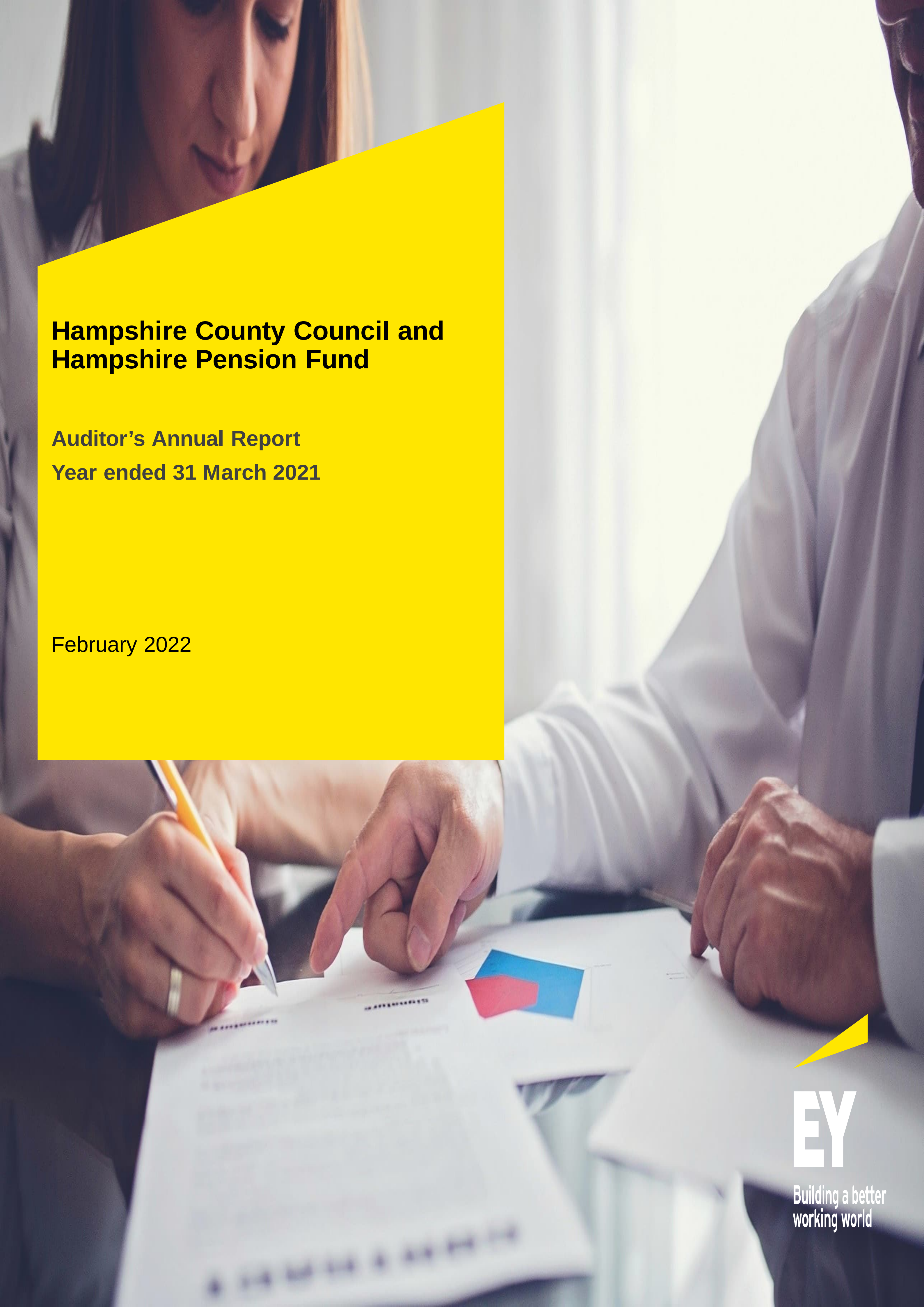


Hampshire County Council and Hampshire Pension Fund

Auditor’s Annual Report

Year ended 31 March 2021

February 2022

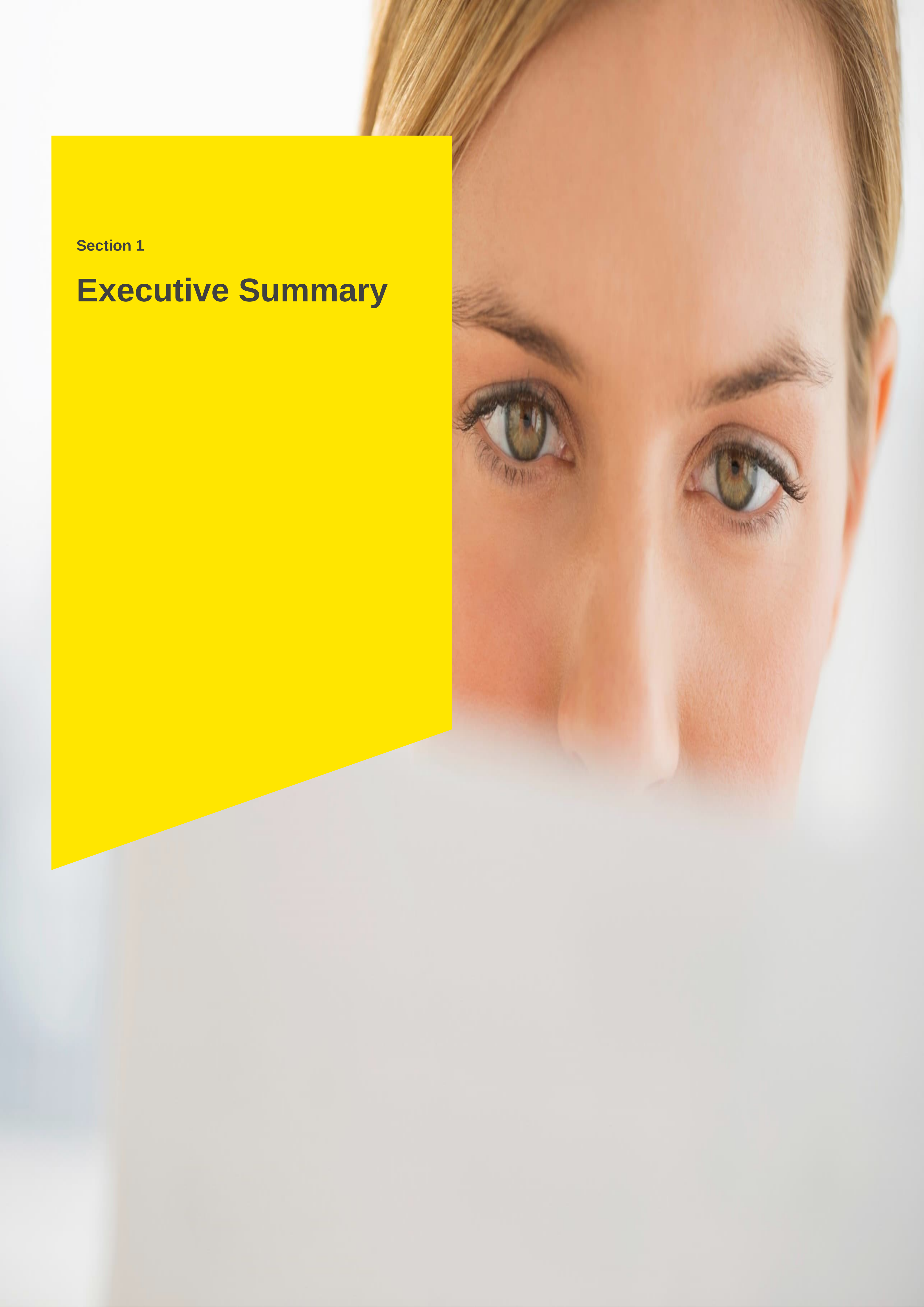
Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Hampshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Hampshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hampshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.
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 Hywel Ball, 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.

Section 1

Executive Summary



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 20 December 2021.
Going concern	We have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	Financial information published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund annual report and other information published with the financial statements	Financial information in the Pension Fund Annual Report and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statements were consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated September 2021 to the Audit Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address additional audit work required as a result of the revised ISAs that are in scope for this year end in relation to estimates and going concern, along with the additional work required for the revised VfM arrangements. As a result, we will discuss an associated additional fee with the Chief Finance Officer. We include details of the final audit fees in Appendix 1.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Kevin Suter

Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council, or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 23 June 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

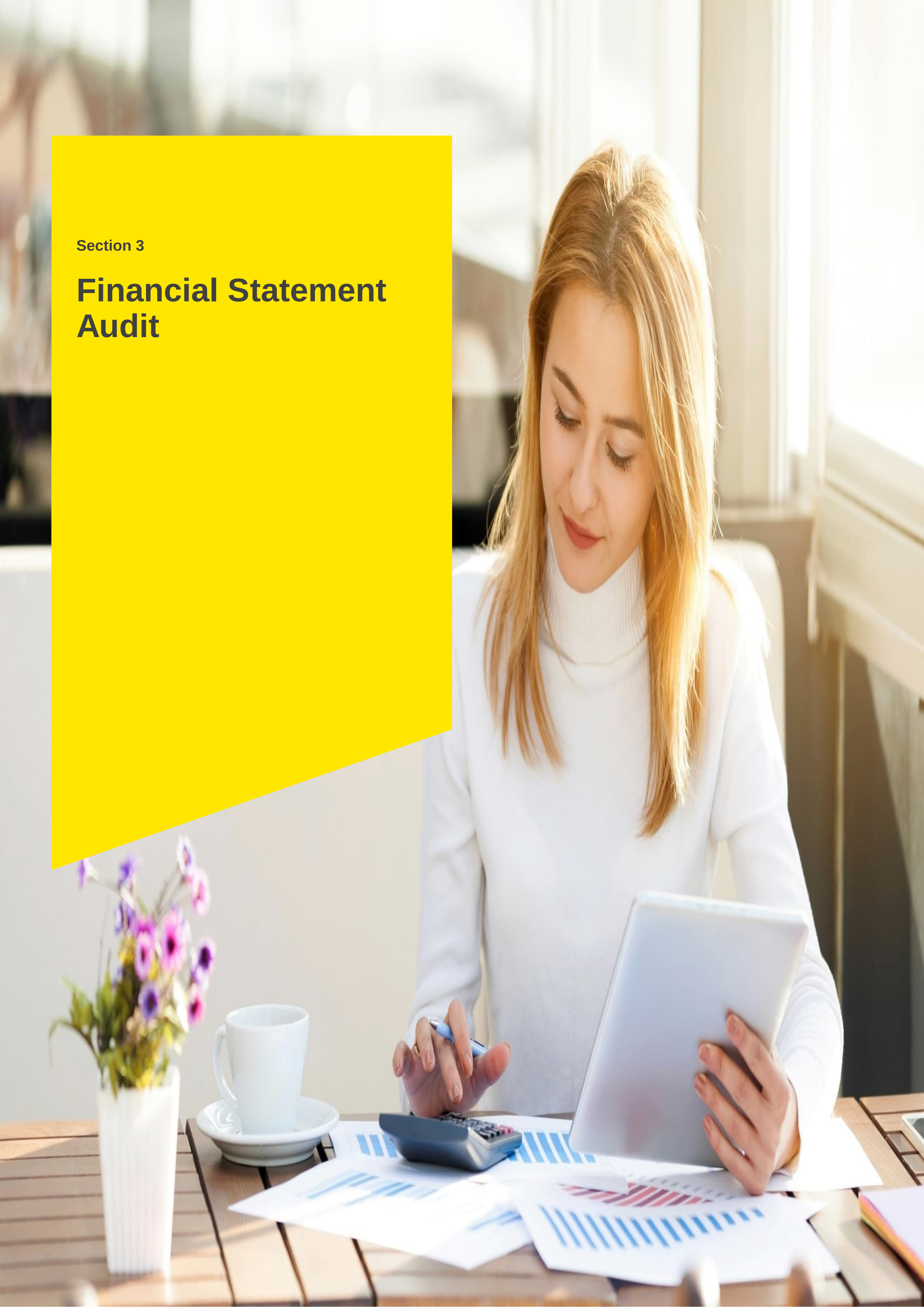
- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council are responsible for preparing and publishing their financial statements, annual reports and governance statements. They are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit – County Council.

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The Statement of Accounts is an important tool for the Council to show how they have used public money and how they can demonstrate their financial management and financial health.

On 20 December 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the September Audit Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit 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 have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. Our journal testing did not identify any journal entries without a valid business purpose. We did not identify any other transactions during our audit which appeared unusual or outside the normal course of business.
Inappropriate capitalisation of expenditure 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. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	Our testing has not identified any material misstatements from inappropriate capitalisation of revenue expenditure. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

Continued over.

Financial Statement Audit (continued)

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

Other area of audit focus	Conclusion
Going concern disclosures The Council are required to carry out an assessment of their ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.	We reviewed the cashflow forecasts prepared by management and are satisfied with the reasonableness of the assumptions which covers the period to 31 March 2023. We agreed the layout and content of the disclosure with management and to ensure there were adequate disclosures included within the final Statement of Accounts.
Valuation of investment property Investment properties (along with land and buildings) are one of the most significant balances in the HCC's Balance Sheet. The valuation of land and buildings held as investment property is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.	We noted a difference in our testing of the valuation of investment property of £13m (understatement). The main difference was attributable to construction costs that had not been included in an investment property valuation due to timing of valuation (01 April). Management chose not to adjust due to materiality.
Valuation of land and buildings Land and buildings is one of the most significant balances on the balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.	We noted differences in our testing of valuations in the year (extrapolated overstatement) and of our analysis of assets not revalued in the year (understatement) that was above our nominal amount therefore we have recorded as a misstatement. The most significant elements of the valuation errors were attributable to DRC buildings and for assets not valued in the year, we disagreed that land and buildings had not moved significantly. The differences give a net overstatement of £35m. Management chose not to adjust due to materiality.
Pension Liability valuation The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	Based on the work performed by the Auditor's of the Pension Fund, we recorded an understatement in the pension asset held by the Council of £4.9m. Management chose not to adjust due to materiality. No issues were noted in our testing of the pension liability valuation.

Financial Statement Audit (continued)

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

Other area of audit focus	Conclusion
Private Finance Initiatives The Council has two PFI/service concession arrangements in place, in respect of waste and street lighting, with liabilities amounting to £161 million in 2020/21. These were both operational and recognised in the Council's balance sheet as at 31 March 2021.	We engaged internal experts to perform a review of the streetlighting PFI Model – a difference was noted in the model used in the prior year, which has not yet been updated by management and has therefore resulted in a classification difference of £19.5 million in the current year between headings within the Comprehensive Income & Expenditure Statement, and a net balance sheet impact of £1.2 million. We are working with management to resolve these differences for future periods.

Financial Statement Audit – Pension Fund

We have issued an unqualified audit opinion on the Pension Fund's 2020/21 financial statements.

Key issues

On 20 December 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the September Audit Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit 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 have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. Our journal testing did not identify any journal entries without a valid business purpose. We did not identify any other transactions during our audit which appeared unusual or outside the normal course of business. We identified no unexplained differences between the fund's investment values provided by the custodian or fund managers, to those presented in the financial statements.
Valuation of complex investments (level 3 fair value hierarchy) Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data. Significant judgements are made by the Investment Managers or administrators to value these investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.	Our testing has not identified any issues with the judgements used in the valuation of level 3 investments.

Continued over.

Financial Statement Audit – Pension Fund (continued)

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

Other area of audit focus	Conclusion
Valuation of non-quoted pooled investments (level 2) The Pension Fund's investment valuations are classified into three levels, according to the quality and reliability of information used to determine fair value. As at 31 March 2021, Hampshire Pension Fund held a significant balance of non-exchange traded pooled funds which are classified as Level 2 Assets at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. We consider the valuation of non-quoted pooled investments to be of a higher degree of inherent risk because of the extent of estimation uncertainty.	Our testing has not identified any issues with the judgements used in the valuation of level 2 investments.
Valuation of directly held property Directly held property are valued at level 2 in the fair value hierarchy, and subject to valuation changes. Material judgemental inputs and estimation techniques are required to calculate the year-end valuation As the pension fund asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that directly held property may be under/overstated. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.	Our testing has not identified any issues with the judgements used in the valuation of directly held property.
Disclosures on going concern There is a presumption that the Pension Fund will continue as a going concern for the foreseeable future. However, the Pension Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19, there is a need for the Pension Fund to ensure its going concern assessment, including its cashflow forecast, is comprehensive. The Pension Fund is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. Given the available levels of liquid investment assets, we do not consider there to be a risk to the Fund's going concern status. We do consider the unpredictability of the current environment to give rise to a risk that the Pension Fund may not appropriately disclose the key factors relating to going concern, consistent with managements assessment with particular reference to Covid-19	We reviewed the cashflow forecasts prepared by management and are satisfied with the reasonableness of the assumptions which covers the period to 31 March 2023. We agreed the layout and content of the disclosure with management and to ensure there were adequate disclosures included within the final Statement of Accounts.

Financial Statement Audit (continued)

Audit differences

In addition to the misstatements noted on the previous pages 9 and 10, we identified an overstatement of Council Tax & NDR income of £13.5m which management chose to adjust. We also noted a small number of misstatements in disclosures which management corrected.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £46.5m as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. (Planning Materiality for the Pension Fund was £90.7m)
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.3m. (Reporting Threshold for Pension Fund was £4.5m)

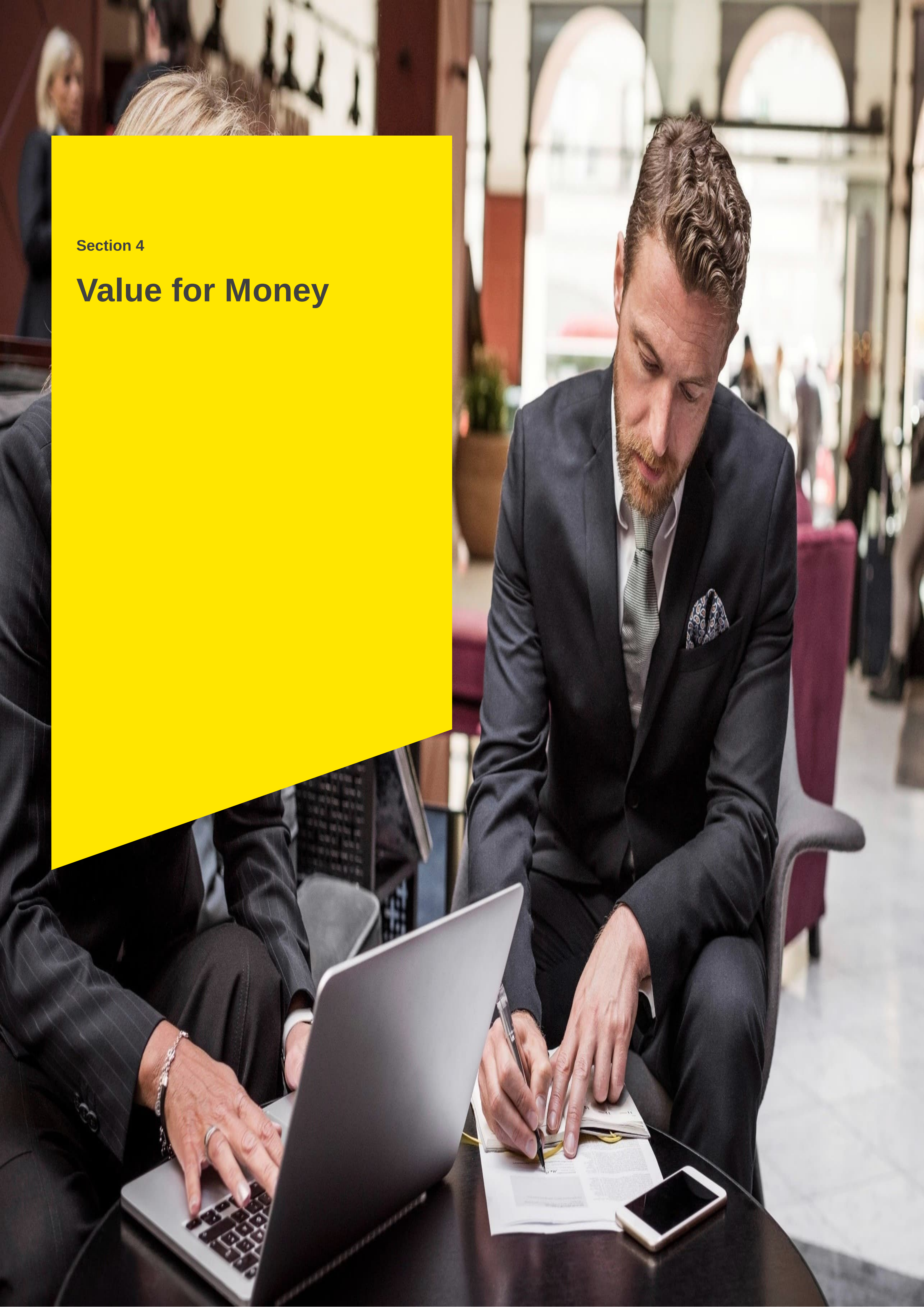
We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- We set a materiality of £1k for officers and senior employees' remuneration and audit fees disclosures. We audited all disclosures and undertook procedures to confirm material completeness

Materiality	HCC	HPF
Planning	£46.5m	£90.7m
Performance	£34.9m	£68.1m
Reporting	£2.3m	£4.5m

Section 4

Value for Money



Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the June Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the CFO and evaluation of associated documentation through our regular engagement with management and the finance team.

We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

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

Reporting

We completed our planned VFM arrangements work on 20 December 2021 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

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

VFM Commentary

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

- Financial sustainability
  How the Council plans and manages their resources to ensure they can continue to deliver their services;
- Governance
  How the Council ensures that they make informed decisions and properly manages their risks; and
- Improving economy, efficiency and effectiveness:
  How the Council uses information about costs and performance to improve the way they manages and deliver services.

VFM Commentary

The Council has the arrangements we would expect to see to enable them to plan and manage their resources to ensure that they can continue to deliver services.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the Covid-19 pandemic has had a significant impact shaping decisions made, how services have been delivered, and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

2020/21 has clearly been an extraordinary year for the Council, with the Covid-19 pandemic providing a number of financial challenges during 2020/21 but also having a significant impact upon the review and development of the Medium-Term Financial Strategy (MTFS) for 2021/22 and beyond.

Regarding financial planning, the Council works to refine budgets and the Medium Term Financial Strategy (MTFS) to respond to cost pressures as they emerge, and recognises that effective financial planning remains difficult due to continuing uncertainties in the funding that will be made available to councils. The County Council reviews its budgetary position annually and produces a rolling three year plan, known as the Medium Term Financial Strategy (MTFS). This plan considers the financial climate at both the local and national level together with available resources and budgetary pressures in arriving at a financial strategy.

The budget for 2020/21 was approved by the County Council on 13 February 2020 and the council tax requirement (which is the net budget met by council tax) for 2020/21 was set at £670m. During 2020/21 there have been a number of changes to the original approved budget and financial strategy, reflecting Cabinet decisions and the application of several emergency funding streams made available by the Government and NHS England in response to the coronavirus pandemic. These updates included an update to the MTFS in July 2020, and a “Financial Update” in September 2020 including updates on the funding allocations for HCC.

VFM Commentary

The Council has the arrangements we would expect to see to enable them to plan and manage their resources to ensure that they can continue to deliver services.

Medium Term Financial Strategy (MTFS):

The Council produces an MTFS every year based on a rolling three year horizon. The strategy that the Council follows involves planning ahead of time, releasing resources in advance of need and using those resources to help fund transformational change. The MTFS consists of a Reserves and Savings Strategy, which includes:

- Deliberate policy to make savings ahead of need to generate surplus funds (see information below where we discuss how this is done)
- Using those reserves to fund the next phase of changes to release further savings and increase capital investment
- Two year programme of savings to give the time and capacity to implement effectively
- Straight line approach to allocating savings and corporate funding made available to fund spending pressures
- Significant use of the Grant Equalisation Reserve (now Budget Bridging Reserve) to fund deficits in intervening years
- Using other corporate reserves to fund voluntary redundancy programmes and corporate invest to save and IT enabling programmes

In addition to the above, the Council focus on the Commercialisation of Local Government as part of their MTFS:

- Charging users for the direct provision of services.
- Investing money or using assets to generate a return.
- Expanding traded services to other organisations.
- Developing joint ventures that yield additional income or generate a return

The MTFS is regenerated every year based on a rolling 3 year horizon with the most recent MTFS being reported to Cabinet in October 2018, and this set out the medium term prospects for the County Council's finances to 2021/22. An update was given to the MTFS in July 2020 due to the coronavirus pandemic.

The next version on the MTFS is due to be published later in 2021.

Annual Budget Setting Process:

A budget is prepared and approved annually, ahead of the financial year. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds. The budget will be approved by the County Council and proposed by the Cabinet on the advice of the Chief Financial Officer.

The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme.

The Council has the arrangements we would expect to see to enable them to plan and manage their resources to ensure that they can continue to deliver services.

The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis. The County Council may amend the budget and capital programme or ask the Cabinet to reconsider it before approving it.

We note that the Council has a good record of delivering against its financial strategies and budgets by containing expenditure within budgets and achieving early savings. The success of the strategies indicates that the Council are focused on identifying any potential risks and implementing a strategy to work against these risks in order for them not to be a financial burden in the future

How the body plans to bridge its funding gaps and identifies achievable savings

The saving targets and other headline issues are agreed as part of the MTFS. The Council then implements their saving strategies through their "Transformation To" plan. These are 2 year cyclical plans that set out the programme targets, the timetable, early progress and some key issues.

The "Transformation To" programmes involve the Council identifying a number of areas per service area where savings can be achieved. The saving proposals are then documented along with any impacts of the proposal and presented to Cabinet for approval.

The Tt2021 Programme sets savings targets for departments based on meeting a predicted £80m budget deficit. At the time this figure was forecast, there were no details on local government finance beyond the 2019/20 financial year and a large range of assumptions were made for this estimate. The Council have therefore updated this programme as time progressed and new information becomes available. The updates to the plan have included more information about the cost pressure that the Council faces, particularly in adults' and children's social care services which are significantly outstripping the forecasts that were included in the original Tt2021 planning figures.

We note that in 2020/21, the Council underspent on their budget due to early achievement of Tt2021 savings in many service areas, and other factors such as central government support for the pandemic. The Year End Financial Update sets out that the planned delivery of savings as part of the Tt2019 and Tt2021 programmes has been delayed over the last year, as project resources to deliver the saving had been diverted to support the Covid-19 response effort. The ability to affect the volumes of care and price paid has been significantly impacted by the need to support the NHS in freeing up acute capacity.

Looking ahead, the County Council is due to consider its savings proposals for the two years to 2023/24, which require a further £80m of savings to be made, albeit once again there is little information available to inform this position. This programme is being termed Savings Programme 2023, recognising the shift away from Transformation Programmes given the need to deliver all £80m of savings by April 2023.

The Council has the arrangements we would expect to see to enable them to plan and manage their resources to ensure that they can continue to deliver services.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council's saving plans and initiatives focus around the four strategic aims, which bring together a number of their priorities forming an overarching framework for their services. The Council recognises that its ability to continue to deliver front line services will depend on its capacity to generate new funding streams, streamline the way that residents access services and support and encourage self-sufficiency, whilst protecting the most vulnerable. Their focus is on targeting resources at the most vulnerable people while becoming more efficient in the delivery of its services.

The Council's strategic plan is intended to guide decision making to ensure that money is targeted where it is needed most and where it can make the greatest difference.

The MTFS enables the Council to consider the financial climate at both the local and national level together with available resources and budgetary pressures in order to arrive at a financial strategy. Throughout these processes, each service line is considered individually in order to ascertain whether savings can be made in each of these areas and the potential impact these savings may have.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

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

The Capital and Investment Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

All of the Council's financial strategies and planning interlink and are presented in a way that informs clear and effective decision making.

The Council has the arrangements we would expect to see to enable them to plan and manage their resources to ensure that they can continue to deliver services.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Throughout the preparation of the budget and MTFS, risks are taken into consideration in order to see how they impact certain areas and what the financial implications of these risks might be. Reserves are used not only to help implement the MTFS but also to provide mitigation against financial risks and wider flexibility in dealing with unplanned changes.

The Council has an effective corporate risk management framework in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. This includes both financial and non-financial risks. The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee.

Budget Monitoring and Control:

The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis.

It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Chief Financial Officer.

The largest risk affecting the Council throughout the year was the ongoing Covid-19 pandemic. The Council's response, such as presented to the May 2020 Cabinet meeting, show the steps that were taken by the Council.

In our review of the minutes we can see that since May 2020, there has been a progress report in relation to the Council's response to the pandemic presented at every Cabinet meeting, with the most recent being July 2021. This report shows the latest facts and figures in relation to Hampshire, including the financial impact, and we commented on the annual revenue budget above. In Capital Programme terms there has not been a significant impact arising from Covid-19. Some programmes of works were temporarily suspended but most of these re-started again soon after.

The Council has continued to demonstrate strong financial stewardship over this extremely challenging period. At the end of 2020/21, departmental net expenditure was £51.9m lower than budgeted, against an overall gross budget of approaching £2.0bn.

Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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

The elements of the Council's risk management framework are to:

- Ensure that responsibilities for managing individual risks are clearly allocated
- Align the risk management strategy and policies on internal control with achieving objectives
- Ensure an audit committee which is independent of the executive and accountable to the County Council:
    - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment
    - that its recommendations are listened to and acted upon

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

Quarterly reports are received from the internal auditors highlighting their work carried out including a breakdown of fraud investigations with any significant issues included in summary format. Cases of alleged or proven incidents of fraud are investigated or tracked by internal audit and reported to the Audit Committee.

The Anti-Fraud and Corruption Strategy and related policies (including the Bribery Act Policy) are regularly reviewed and have been approved by the Audit Committee. The County Council fully participate in the National Fraud Initiative with results notified to the Audit Committee through the Chief Internal Auditors Annual Report and Opinion.

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

The Council has the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body approaches and carries out its annual budget setting process

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

Budget Preparation:

The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme.

The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis and a forward financial forecast is prepared.

It is the responsibility of chief officers to ensure that revenue and capital budget estimates reflecting agreed service plans are prepared in consultation with the Chief Financial Officer and Executive Member and submitted to the Cabinet and that these estimates are prepared in line with the budget guidance issued by the Cabinet.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

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

Budget Monitoring and Control:

The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis.

It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Chief Financial Officer. They should report to the relevant Executive Member on variations and take any action necessary to avoid exceeding their budgets and alert the Chief Financial Officer to any problems. Any new proposal containing significant financial implications must take note of the Chief Financial Officer's advice as well as that of the relevant Chief Officer and Executive Member

Governance (continued)

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Council has a number of arrangements in place to ensure that appropriate decisions are made. Council decisions may be made either at Full Council meetings, at committees of Council, at a meeting of all executive members i.e. 'Cabinet' or by individual executive members at 'decision days'.

Full Council:

The Full Council is responsible for specified major decisions, such as setting the budget, and debates topical issues. It also receives reports from the Executive, and members are able to question the Executive on their areas of business.

Cabinet:

Since 2001 Hampshire has operated a Leader with Cabinet structure. Hampshire’s Cabinet is made up of the Leader and executive members who each have a portfolio of responsibilities. The Cabinet make decisions together on strategic issues and individual executive members can take decisions on issues relating directly to their portfolio areas.

The Council has the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Select Committees:

The Select Committees (Overview and Scrutiny) hold the executive members to account on the decisions they make both collectively as Cabinet and individually. They can assist the Cabinet and executive members to make effective decisions by examining issues beforehand and making recommendations. The Select Committees can also challenge decisions before they are implemented, review decisions after they have been implemented to see if they achieved what was intended, and suggest new policy areas or review the effectiveness of existing policies.

Audit Committee:

The purpose of the Audit Committee is to monitor, review and report on the governance arrangements of the County Council. The Audit Committee is supported by the Internal Audit Function (Southern Internal Audit Partnership). Quarterly reports are received from the internal auditors highlighting work carried, these reports are presented at Audit Committee where the results and procedures are discussed amongst those charged with governance.

Our attendance at Audit Committees indicates that reports bought to the attention of the Audit Committee are appropriately challenged and scrutinised

Monitoring Officer:

The Council also has a Monitoring Officer in place. The function and role of the Monitoring Officer includes ensuring lawful and fair decision making.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

We have identified there are various policies in place regarding the integrity, ethical values and behaviour of key executives.

A code of corporate governance is in place to ensure that the intended outcomes for stakeholders are defined and achieved.

To ensure effective leadership throughout the County Council, members and officers work together to deliver agreed plans with defined functions and roles. These roles and responsibilities are set out in the Constitution and in particular looks at how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Many of these processes are required by statute and regulations by Governmental and other bodies (e.g. CIPFA) while the County Council has determined others locally.

The County Council has adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers. These include codes of conduct for both officers and members and cover conflicts of interest and gifts and hospitality and appropriate policies for partnership working.

These are communicated as part of the induction process. All staff and members are provided with a copy of the respective codes of conduct when joining the Council and are required to read and comply with them. Ongoing awareness training is made available via the County Council's intranet, Hantsnet.

There are appropriate policies and procedures for ethical and behavioural standards, declaration of and protocol for conflicts of interest, and security practices that are adequately communicated throughout the organisation

The Council has the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council is currently operating under the "Serving Hampshire – Strategic Plan for 2017-2021". Each year the Council produces a performance report which provides details on the County Council's performance throughout the year, both financial and non-financial. This report provides strategic oversight of the Council's performance in year against the Strategic Plan and sets out ways to refresh the Plan and update the Council Performance Management Framework.

To report progress against Serving Hampshire, departments are asked to rate performance against a core set of performance metrics on a quarterly basis. For each measure, a risk-based 'red, amber, green' rating is applied, informed by the most recent data and management information.

We note that in July 2021, the "Serving Hampshire Strategic Plan 2021-25" was taken to Cabinet and approved. There was no change to the 4 strategic aims:

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

The Council has the arrangements we would expect to see to enable them to use information about their costs and performance to improve the way they manage and deliver services.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council has a number of collaborative working arrangements. The County Council has pooled budget arrangements with NHS bodies and joint working agreements with Hampshire Constabulary, Hampshire Fire and Rescue Service, Oxfordshire County Council, Westminster City Council, London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea. These involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity.

Integrated Business Centre

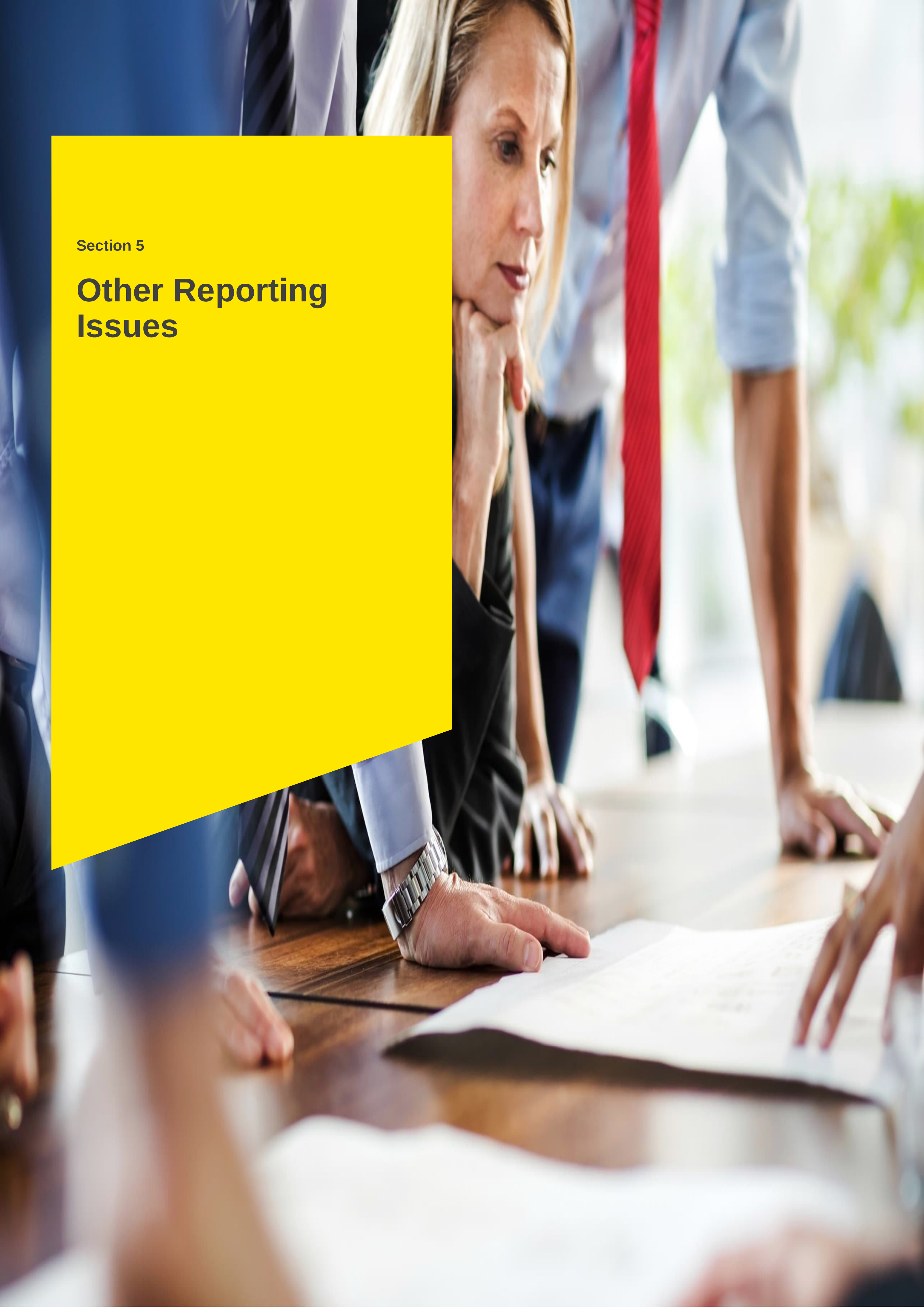
The Integrated Business Centre (IBC) is hosted by Hampshire County Council and was launched in 2014/15 for the provision of shared financial and HR services. The IBC has since extended its services to Oxfordshire County Council, London Borough of Hammersmith and Fulham, City of Westminster Council and Royal Borough of Kensington and Chelsea. The service offered by the IBC are HR Services, Finance Services, Purchase to Pay Services.

Performance is formally reviewed on a quarterly basis, and this includes a range of Performance Measures, overlaid by comprehensive service performance reports, and agreed actions to drive continued collective performance improvement. The IBC also provides an ISAE 3402 Type 2 report in relation to the control environment. This allows HCC to monitor the control environment and follow up on any control weaknesses noted.

The Council has the arrangements we would expect to see to enable them to use information about their costs and performance to improve the way they manage and deliver services.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

Standing Orders on Procurement and Contracts are set out within the Constitution. This includes the procedures and statutory requirements in terms of the procurement of services. The Council has also developed a Procurement Strategy for 2019-2021 which sets the framework in which Hampshire County Council will work to ensure that procurement delivers value for money across all services and directly contributes to the achievement of their strategic goals.



Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the governance statements, identify any inconsistencies with the other information of which we are aware from our work, and consider whether they comply with relevant guidance.

We completed this work and did not identify any areas of concern.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014

Other Reporting Issues (cont'd)

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We relied on the ISAE 3402 report on the controls of the Integrated Business Centre (IBC). We have not tested the operation of any controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

Appendix A

Audit Fees

Audit Fees

Our base fee and fee re-basing for 2020/21 is in line with the audit fee agreed and reported in our Audit Plan and Annual Results Report.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Base Fee – CC	89,720	89,720	89,720
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk	49,057	39,246	27,104
Scale fee variation	13,000		
Total Audit	151,777	TBC	116,824

For 2020/21 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the County Council and additional work to address increase in Regulatory standards. The final fee incorporates the PSAA's revised hourly rates. The scale fee variation relates to the revised requirements for VfM and Estimates auditing standard. The additional fee for 2020/21 is yet to be discussed with management and remains subject to approval by PSAA Ltd.

During 2021 EY have undertaken non-audit work in relation to the ISAE 3402 report on the integrated business centre (IBC). This was contracted through Hampshire County Council. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Base Fee – HPF	24,442	24,442	24,442
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk	39,672	31,738	13,593
Scale fee variation	3,180		
Total Audit	67,295	TBC	38,035

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales
with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com