

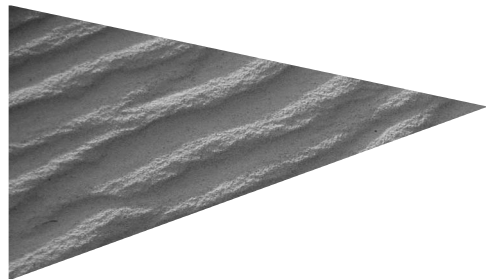
Hampshire County Council

Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

25 September 2014



Building a better
working world

Kate Handy, Director

KHandy@uk.ey.com

Hassan Rohimun, Senior Manager

HRohimun@uk.ey.com

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Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 16 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements well.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts (WGA)

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the WGA submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Extent and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- ▶ Express an opinion on the 2013/14 financial statements
- ▶ Report on any exception on the governance statement or other information included in the foreword
- ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the NAO our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Financial Statements - addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>3. As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewing accounting estimates for evidence of management bias; and • Evaluating the business rationale for significant unusual transactions. 	<p>Our testing found:</p> <ul style="list-style-type: none"> • Journals entries were appropriately recorded in the general ledger; • Accounting estimates were reasonable and there was no evidence of management bias; and • There were no significant unusual transactions.

Financial Statements - addressing audit risks

Other audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Other audit risks		
<p>On 1.4.2013, Central Government localised Non Domestic Rates (NDR) from the previous National Non Domestic Rates (NNDR) system.</p> <p>The previous NNDR system had been based on receipts and payments rather than accrual accounting.</p> <p>However, on transfer to the new NDR system full accrual accounting was introduced.</p> <p>One of the consequences of this is that billing authorities will now have to calculate a provision in respect of valuation appeals that have yet to be decided at the year end.</p> <p>As a precepting authority, the County Council will need to satisfy itself that these estimates are reasonable and appropriately supported before recognising a share of them in its financial statements.</p>	<p>Based on the requirements of auditing standards our approach will focus on:</p> <ul style="list-style-type: none"> Identifying how the Council plans to approach the preparation of accounting entries related to local retention of business rates; Consideration of the effectiveness of management's controls designed to oversee this process; Determining an appropriate risk based strategy to address identified risks of material misstatement; Performing mandatory procedures regardless of specific risks. 	<p>The Council's share of the NDR appeals provision is not significant to the 2013/14 financial statements.</p> <p>The controls in place to assess the reasonableness of the provisions set by billing authorities were adequate.</p>

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
 - ▶ Completion of final procedures on fixed asset additions and accounts payable.
 - ▶ Receipt of your signed Letter of Representation
 - ▶ Final review of the amended financial statements and agreement to WGA return.
 - ▶ Final internal review procedures
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Misstatements

- ▶ We have not identified any errors within the draft financial statements, which management have chosen not to adjust.

Corrected Misstatements

- ▶ Our audit identified a small number of misstatements which our team highlighted to management for amendment. All of these have been corrected during the course of our work. The most significant amendment was the disclosure, in the Consolidated Income and Expenditure Account, of Public Health services as an acquired operation. The amendments made did not change the reported financial position of the Council.

- ▶ We identified a number of typographical and narrative errors which have been highlighted to management for amendment. We do not consider any of these to be significant and therefore we have not provided further details of these amendments.

Other Matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
 - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
 - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
 - ▶ Any significant difficulties encountered during the audit; and
 - ▶ Other audit matters of governance interest,

We have no matters we wish to report.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ 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.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

Whole of Government Accounts (WGA)

- ▶ Alongside our work on the financial statements, we also review and report to the NAO on your WGA return. The extent of our review and the nature of our report are specified by the NAO.
- ▶ We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Hampshire County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”

- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We concluded that the Council has established a sound Medium Term Financial Strategy to support a sustainable budget.
- ▶ Looking ahead there are significant challenges particularly in respect of Adult Social Care and Children Services. The medium term strategy is dependent on the achievement of savings, through the delivery of the transformation agenda, for which there is a good track record of achievement. Any non delivery of savings can be mitigated by the Council's sound level of reserves. In response to the challenges the Council has recognised the need for Adult Social Care and Children Services to fundamentally review their operating model and is taking action to do so.
- ▶ The establishment of sustainable service models and the delivery of integrated working with partners (especially health) will be key factors to longer term financial stability.

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”

- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We concluded that the Council continues to be able to demonstrate that it is low cost and performing well against its own corporate priorities. Service provision of key services is comparatively in line with other local authorities.
- ▶ Corporate planning is supported by a robust system of risk management. Resources and savings targets are linked to corporate priorities. Performance monitoring is effective and there is a sustained culture of challenging how the Council operates and delivers services in order to secure efficiencies and deliver improvements.
- ▶ The Council continues to deliver on its phased transformation agenda, which includes delivering £98m of savings by 2015, as at June 2014 the Council had secured £36m of this target.
- ▶ Overall, working with its partners, the Council has established effective arrangements for managing the health integration agenda. There are significant benefits for services to be realised from this programme but successful achievement of priorities is dependent on the joint delivery of plans by partners. There remains significant financial risks associated with the Better Care Fund, particularly the need for partner organisations to deliver on their savings plans.

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 10 June 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ 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 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 25 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 10 June 2014.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	155,358	155,358	0
Certification of claims and returns	0	0	0
Non-audit work	0	0	0

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

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

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

