

Hampshire County Council

Annual Audit Letter for the year ended 31 March 2015

September 2015

Ernst & Young LLP



Building a better
working world

The Members
Hampshire County Council
The Castle
Winchester
Hampshire
SO23 8UJ

30 September 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate to the Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We reported the detailed findings from our audit work to the 24 September 2015 meeting of the Audit Committee, representing those charged with governance in the following reports:

- 2014/15 Audit results report for Hampshire County Council
- 2014/15 Audit results report for Hampshire Pension Fund

The matters reported here are the most significant for the Council.

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

Yours faithfully

Maria Grindley
Executive Director
For and on behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 Annual Audit Letter 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.

1. Executive summary

Our 2014/15 audit work has been undertaken in accordance with the Audit Plans that we issued in June 2015 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the Council reports publically on an annual basis 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 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.

As auditors we are responsible for:

- forming an opinion on the financial statements and on the consistency of other information published with them;
- reviewing and reporting by exception on the Council's Annual Governance Statement;
- forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the Hampshire County Council Statement of Accounts 2014/15 for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 25 September 2015 we issued an unqualified audit opinion in respect of the Council.
	On 25 September 2015 we issued an unqualified audit opinion in respect of the Pension Fund.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 25 September 2015 we issued an unqualified value for money conclusion.
to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 25 September 2015.
Consider the completeness of disclosures on the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA/ SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.

As a result of the above we have also:

Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

Our audit results reports for Hampshire County Council and Hampshire Pension Fund were presented at the 24 September 2015 meeting of the Audit Committee.

On 28 September 2015 we issued our audit completion certificate.

With respect to the 2014/15 financial year there are no grant claims or returns requiring certification in accordance with the Audit Commission's certification instructions.

2. Key findings

2.1 Financial statement audit

The Statement of Accounts is an important document for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 25 September 2015. Our detailed findings were reported to the 24 September 2015 meeting of the Audit Committee.

The main issues identified as part of our audit were:

Significant risk 1: Risk of management override

Management is in a unique position to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We responded to this risk by:

- ▶ 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.

Our testing did not identify any issues of concern in these areas.

Significant risk 2: Accounting for schools' non-current assets

In December 2014, CIPFA/LASAAC issued guidance on the application of the 2015 Accounting Code to non-current assets. Despite changes to the Code and the additional guidance there was the potential for different interpretations of how non-current school assets should be accounted for in 2014/15. We responded this risk by:

- ▶ confirming that the Council had considered the nature of the agreements in place locally when determining their accounting approach;
- ▶ ensuring that the Council correctly applied the relevant accounting standards (IAS16) to the non-current assets for each category of schools;
- ▶ reviewing the evidence to support the accounting treatment adopted; and
- ▶ ensuring appropriate disclosures of the judgments and accounting policies applied to schools' assets.

Our testing did not identify any issues of concern in these areas

Other key findings:

Management agreed to correct the small number of misstatements which our team highlighted to them for amendment. The most significant amendment was the reclassification of losses on the disposal of assets transferred to academy and foundation trust school in the Consolidated Income and Expenditure Account. The amendments made did not change the reported financial position of the Council.

Looking ahead to the early accounts closedown timetable in 2017/18, we noted areas for joint action where improvements can be made to the audit process, we will liaise with Management to identify the learning from this year in order to secure improvement for the 2015/16 audit.

2.2 Value for money conclusion

We carry out sufficient and relevant work to conclude whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience; and,
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 25 September 2015.

The main issues identified as part of our audit were:

Securing financial resilience

The Council continues to face financial pressures in the medium term. As part of Transformation 2015 the Council is working to deliver a £102 million savings target and in March 2015 the Cabinet set out that, as part of the Transformation to 2017, savings of £98 million will be required.

In June 2015 the Council reported in the Shaping Hampshire 2014/15 Annual Performance Report that by April 2016 £83.6 million of efficiency savings were delivered against the target of £102.5 million. Programmes are in place to deliver the Transformation 2015 target and the Council is now working on plans to deliver the £98 million Transformation 2017 savings. To date the Council has undertaken:

- planning to identify a top 19 programme list across key services; and
- work to establish detailed project initiation documents, plans, resource requirements, timelines and leadership requirements.

The Council also undertook a large scale public consultation to identify the views of stakeholders on service and spending priorities, the results of this consultation are being factored into the initial planning, that has already been undertaken, to establish the detailed savings plan and the medium term financial strategy.

Delivery of the Transformation 2017 plan will remain a challenge and Member action will be required to monitor progress and to ensure that the necessary delivery action is undertaken.

Adult Social Care and Children Services

In 2013/14 we reported that looking ahead there were significant challenges to delivering the medium term financial strategy particularly in respect of Adult Social Care and Children Services. As part of the Transformation to 2017 £98 million savings target there are a number of planned programmes for Adult Social Care and Children Services which are aimed at reviewing the operating model in key areas.

The processes being followed provides evidence that action is being taken address the financial challenges within these two service areas. However, both nationally and locally the demand for services is increasing and the ongoing challenge will remain, it is therefore important that once agreed planned actions are delivered.

Better Care Fund (BCF)

In December 2014 an efficiency target was agreed between the Council and the five Hampshire Clinical Commissioning Groups (CCGs), this committed the partners to underwrite £20 million of savings in 2015/16 and 2016/17. A risk share was signed for 2015/16, in this

the partners agreed that in the event of savings not being delivered to the value agreed, any shortfall will be shared between all parties, thereby mitigating the risk of the Council being solely liable for any shortfall. Recently the CCGs informed the Council that they will not sign a risk share agreement for 2016/17. It has also been forecasted that the partners will now only deliver £2.7 million of the £20 million savings target in 2015/16. The Council has planned contingencies to cover this scenario and work is in progress to identify further actions that the Council will need to take to mitigate this position.

As part of the Transformation to 2017 £98 million savings target there are a number of planned cross sector programmes which require liaison with partners across the health and social care system. However, in identifying the associated savings plans for these programmes action is being taken to ensure that responsibility for delivery lies solely with Council.

Members will need to review the planned actions to assess the feasibility of delivery and ensure appropriate action is taken to mitigate potential risks to the Council.

2.3 Whole of Government Accounts

We reported to the National Audit office (NAO) on 25 September 2015 the outcomes of our review of your WGA return conducted under instructions issued by the NAO. We did not identify any areas of concern.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and confirmed that the statement met with CIPFA/SOLACE requirements and was consistent with other information from our audit of the financial statements.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the Public.

2.6 Other powers and duties

We identified no issues during our audit that required using powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Certification of grants claims and returns

With respect to the 2014/15 financial year there are no grant claims or returns requiring certification in accordance with the Audit Commission's certification instructions.

3. 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 did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements of which it was not already aware.

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