

# Hampshire County Council

## Audit Committee Summary

For the year ended 31 March 2013

Audit results report – ISA 260

*September 2013*



Building a better  
working world

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# Executive Summary

## *Key findings*

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### 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' 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 2012/13 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 17 September 2013, we expect to issue an unqualified opinion. The Council prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

#### **Value for Money**

- ▶ We expect to conclude 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 2013.

#### **Whole of Government Accounts**

- ▶ Our work on the Whole of Government Accounts (WGA) submission is in progress, we expect to meet the 4 October 2013 certification deadline to the National Audit Office (NAO). If there are any issues arising from our work impacting on our opinion we will raise them with the Director of Corporate Resources.

#### **Audit Certificate**

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

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# Extent and purpose of our work

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## 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 2012/13 financial statements
- ▶ Report on any exception on the governance statement or other information included in the foreword
- ▶ As a component auditor for the purposes of WGA, follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule
- ▶ 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)

This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

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 this specified party.

# Addressing audit risks

## *Significant Audit risks*

We did not identify any significant risks for the audit. The following general audit risks were identified during the planning phase of our audit, and reported 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
<p><b>1. Valuation of academy school assets</b> In 2011/12 the Council needed to obtain a revaluation of land for newly converted academy schools, impacting on its draft accounts.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>➢ Documenting and reviewing the Council's process for ensuring it has identified all academy schools for its financial statements</li> <li>➢ Testing the Council's valuation of the associated land.</li> </ul>	<p>We identified that the accounting for the transfer of academy schools in 2012/13 was based on information received from Children Services and the correct accounting treatment was applied in the preparation of the 2012/13 financial statements.</p>
<p><b>2. Risk of misstatement due to fraud and error</b> Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.  Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p>	<p>Based on the requirements of auditing standards our approach focused on:</p> <ul style="list-style-type: none"> <li>➢ Identifying fraud risks during the planning stages</li> <li>➢ Inquiry of management about risks of fraud and the controls put in place to address those risks</li> <li>➢ Understanding the oversight given by those charged with governance of management's processes over fraud</li> <li>➢ Consideration of the effectiveness of management's controls designed to address the risk of fraud</li> <li>➢ Determining an appropriate strategy to address those identified risks of fraud</li> <li>➢ Performing mandatory procedures regardless of specifically identified fraud risks</li> <li>➢ Considering the results of the National Fraud Initiative and may make reference to it in our reporting.</li> </ul>	<p>We have gained the expected level of assurance over the risks of fraud, the oversight exercised by those charged with governance, the internal control framework and the operation of controls designed to prevent and detect fraud or error.</p> <p>We have completed our mandatory tests of detail on the financial statements and concluded that the risk of material misstatement remains low. We have not identified any material errors or omissions in the financial statements.</p> <p>There were instances of fraud in 2012/13 that were identified and investigated by Internal Audit, these have been reported to the Audit Committee. The Council has participated in the national fraud initiative and Internal Audit have taken action to investigate and clear the potential fraud matches.</p>

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# Financial Statements audit

## *Issues and errors arising from the audit*

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### 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:
  - ▶ Receipt of a Letter of Representation
  - ▶ Whole of Government Accounts, and
  - ▶ 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 Errors

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

### Corrected Errors

- ▶ There were a limited number of errors to the financial statements which management agreed to amend. We do not consider any of these to be significant and therefore 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;
  - ▶ 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.
  - ▶ Other audit matters of governance interest
- ▶ Management have agreed to:
  - ▶ Make additional disclosure on the notes to the financial statements to explain the significant increase in disposals which relates to the derecognition of fully depreciated assets.
  - ▶ Specifically outline in the accounting policies that the Council is not fully complying with the requirements of the IFRSs in respect fixed asset componentisation accounting on the grounds of materiality.
  - ▶ Amend Note 3 of the financial statements. This note was prepared in accordance with CIPFA guidance however the wording implied there may be material differences as a result of assumptions and estimates. Such an implication is inconsistent with an unqualified opinion.

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# Findings and issues

## *Internal Control, Written Representations & Whole of Government Accounts*

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### **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 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 weakness in the design or operation of an internal control that might result in a material error 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, for which we do not currently have sufficient audit evidence. We have not requested any specific representations for this year over the standard representations.

### **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 my report are specified by the National Audit Office.
- ▶ Our work on the Whole of Government Accounts (WGA) submission is in progress, we expect to meet the 4 October 2013 certification deadline to the National Audit Office (NAO). If there are any issues arising from our work impacting on our opinion we will raise them with the Director of Corporate Resources.

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# Arrangements to secure economy, efficiency and effectiveness

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*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 robust Medium Term Financial Strategy to support a sustainable budget. There are effective monitoring arrangements and budgets are being delivered.
- ▶ Looking forward the level of financial challenge is increasing and the Council has identified that significant additional savings will be required in the medium term. There are arrangements in place to develop sustainable solutions for the required savings and the Council has a sound level of reserves to mitigate changes in the financial environment and to facilitate the continued implementation of the transformation agenda.

## 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, as well as comparatively against 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 has delivered the challenging savings target and continues to deliver on its phased transformation agenda to ensure it can effectively deliver services within an increasingly challenging financial environment and greater demand for services.

# Independence & Audit Fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 18 March 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit director 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 26 September 2013.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements was set out in our Audit Plan of 18 March 2013.

## Audit fees

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

	Proposed final fee 2012/13 £	Scale fee 2012/13 £	Variation comments
Total Audit Fee - Code work	155,358	155,358	Not Applicable
Certification of claims and returns	1,550	1,550	Not Applicable
Non-Audit work	Nil	Nil	Not Applicable

- ▶ 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.
- ▶ Our work on the 2012/13 certification of claims and returns is not scheduled to commence until October 2013.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

## Ernst & Young LLP

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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.

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