Hampshire County Council

Audit status update report

Year ended 31 March 2022

17 May 2023

Building a better working world

Audit Committee
Hampshire County Council
The Castle
Winchester
Hampshire
SO23 8UJ

17 May 2023

Dear Audit Committee Members

We are pleased to attach an update on the status of the 21/22 audit of Hampshire County Council.

<u>Executive Summary:</u>

Our audit work in respect of the County Council's opinion is well progressed.
Details of each outstanding item, actions required to resolve and responsibility is included at the end of this report.
There have been two national issues that have arisen which have impacted our ability to conclude the audit of the 21/22 Statement of Accounts:

1. Infrastructure Assets (as highlighted in the audit results report and discussed at September audit committee); and
2. The Pension Liability as a result of the completed triennial valuation as at 31 March 2022.

These issues and the status of our work on these areas are discussed on the following pages.

This report is intended solely for the information and use of the Audit Committee, other members of the County Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the meeting on 25 May 2023.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

Update on issues that have impacted 21/22 sign-off

Infrastructure Assets

Infrastructure Assets are defined under the CIPFA code as taken to mean the network of highways, footways and cycleways and the structures, lighting and other assets that are directly associated with them.

As highlighted in our audit results report, an issue was raised via the NAO's Local Government Technical Group in May 2022 as to whether local authorities should be assessing if there is any undepreciated costs remaining within the balance sheet for the replaced components that need to be derecognised when the subsequent expenditure is added. This may also lead to issues related to the reporting of gross historical cost and accumulated depreciation as elements of depreciated historical cost

We identified that the Council does not record infrastructure capital expenditure with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation. This means the Council would be unable to identify the cost and accumulated depreciation balances that need to be derecognised which could have a material impact on the 2021/22 financial statements

As a result of the issue having an impact across a large number of councils nationally action has been taken by DLUHC and CIPFA to provide a temporary solution to prevent the issue resulting in qualified accounts and prior period adjustments.

Statutory Instrument

DLUHC issued a statutory instrument, The Local Authorities (Capital Finance and accounting) (England) (Amendment) Regulation 2022, which became extant on 25 December 2022. See The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 (legislation.gov.uk). Key details of the SI are as follows:

The SI relates to a financial year beginning on or before 1st April 2024 and in respect of which a certificate of audit completion has not been issued.

When preparing a statement of accounts to which this regulation applies, a local authority is not required to make any prior period adjustment to the balances of that statement of accounts in respect of infrastructure assets.

Where a local authority replaces a component of an infrastructure asset, for the purposes of determining the carrying amount to be derecognised in respect of that component ("the relevant amount") the local authority shall either—

- determine the relevant amount as nil; or
- calculate the relevant amount in accordance with the accounting practices identified in regulation 31 (Regulation 31 defines proper practices as the Code of Practice on Local Authority Accounting).

If a local authority determines the relevant amount as nil, it must include a note to that effect in its statement of accounts for the year in relation to which that determination is made. The SI specifies application from the period since issue of the last certificate.

Update to the Code of Practice on Local Authority Accounting

CIPFA issued an update to the Code of Practice on Local Authority Accounting in November 2022. The accounting requirements as defined in the CIPFA Code Update are as follows:

The publication is an update to the 2021/22 Code, but it also updates the 2022/23 Code and will apply to subsequent years until the 2024/25 Code, though these specifications will also be included in the 2023/24 and 2024/25 Codes for completeness. The update to the Code and future specifications for the Code must therefore be considered against these editions of the Code, or where necessary earlier editions.

(continued on next page)

Update on issues that have impacted 21/22 sign-off

Infrastructure Assets - continued

Amendments to Section 4.1 of the Code include a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. i.e. they can report on a net book value basis.

- Where a local authority chooses to apply this temporary relief, the Code requires that additional information is provided to explain an authority's rationale for this decision. Where a local authority decides not to report gross cost and accumulated depreciation because information does not faithfully represent the required information for infrastructure assets, the disclosure note on property, plant and equipment shall include the following statement: "In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements."

The Council agreed and has adopted the provisions of the SI and Code and updated the disclosures in its accounts accordingly.

As such we performed the following procedures:

- Confirmed the first financial year they are applying the statutory instrument is for 2021/22.
- Checked the disclosure of infrastructure assets is in accordance with the Cipfa Code adaptation.
- Agreed the opening balance for infrastructure assets to the closing balance on the prior year audited financial statements
- Ensured the financial statements include a disclosure note setting out the determination applied
- We reviewed the accounting policies to ensure they clearly set out how HCC is accounting for infrastructure assets. Accounting policies include commentary on statutory prescriptions and depreciation.
- Tested in year movements (additions, derecognition, depreciation) of infrastructure assets

Conclusion:

Based on the work performed, in line with the above procedures, we are satisfied that the Statutory Instrument and the Code update have been appropriately applied, the accounting policies and disclosure notes are complete and accurate and that depreciation is not materially misstated.

Update on issues that have impacted 21/22 sign-off

Pensions

Preparers of financial statements and auditors are required to consider whether, on the date of final sign-off, the accounts still represent a true and fair view, having regard to all information which is available, including information which has become available after the end of the reporting period.

Retirement Benefits are recognised in the financial statements under accounting standard IAS19 *Employee Benefits*. The Retirement Benefit entries in the 2021/22 draft financial statements will be based upon key judgements and estimates from the 2019 triennial pension fund valuation, rolled forward to 31 March 2022 under IAS 19 accounting principles by the actuaries predominantly using a cashflow roll-forward approach.

March 2022 triennial valuation reports are showing many pension funds moving to a fully funded position, or surplus position. The triennial valuation report for the Hampshire Pension Fund, as at 31 March 2022, was completed on 31 March 2023.

Accounts preparers need to consider the March 2022 triennial valuation, and whether amendments need to be made under section 3.8 of the Code (Events after the reporting period) following receipt of the triennial valuation for 2022. This has been confirmed in CIPFA Bulletin 14 "Closure of the 2022/23 Financial statements" section 10 where pension fund accounts preparers are encouraged to consider the 2022 triennial valuation carefully and to consult with their actuary on the extent to which the defined benefit liability may differ from the roll-forward of the 2019 valuation. Where there is a material variation, accounts preparers need to consider if any adjustment to the pension's liability is appropriate and to reduce the risk of further delay to the publication of audited financial statements they should engage with their scheme actuaries as soon as is practically possible.

The triennial valuation contains information relevant to the IAS19 pension liability as at 31 March 2022. Some of the information within the triennial valuation represents similar information, but for a different basis - therefore for some of the content it is not a relevant comparison to make. Examples of these are mainly in the areas of the financial assumptions, such as CPI, salary increase etc.

However, other information in the triennial valuation is data that existed as at 31 March 2022. For example, membership data. The existence of this data as at the same date should be considered by management as to whether it provides information that may materially update to the IAS19 liability; it could potentially indicate a material difference had it been used or even demonstrate an error. An error may perhaps seem unlikely, but in testing this approach at one client we have identified an error related to an insourcing that hadn't been taken into account.

In terms of auditing standards, ISA540 requires us to consider further information to see whether it may indicate a material difference or error.

We requested management to contact your actuary to update your IAS19 report as at 31 March 2022 as it is such a specialist area, and it would be difficult to try and quantify this without their input. This has been obtained and we note a £239m movement in the pension liability which is significantly above our materiality levels. We have raised a number of questions to management to better understand why the movements have occurred and what is driving them, which they are working with their actuary to respond to.

As a result of the changes to the report, we will need to perform the following procedures:

- Test of membership data used in revised IAS 19 report
- Engage EY pensions to review the revised IAS 19 report, and provide commentary on the reasonableness of the amended demographic assumptions
- Engage EY pensions to perform a liability roll forward. To comply with auditing standard (ISA540), our IAS19 strategy requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. We gain sufficient appropriate assurance through the use of our EY internal Pensions Specialists. As the IAS19 report has been updated, this process needs to be re-run with EY pension Specialists.

This work remains ongoing at the time of writing this report.

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Going concern review and disclosures	We will require an update to management's cashflow forecast and a draft of management's going concern assessment paper to support going concern disclosures. When we have a clearer timetable for resolving the pensions issue, we will request this update.	Management and EY
Officer Remuneration & Exit packages	Queries on the disclosure note to be resolved.	Management
Pensions	See page 5 on additional procedures to be performed as a result of the revised IAS 19 report.	EY and Management
Final review and file close down	Final review by Manager and Partner and finalisation of audit files including action of final coaching notes. This includes review notes on expenditure testing, and final documentation of support received on reserves.	EY
Subsequent event enquiries	Subsequent event enquiries to be shared by EY and responses provided by management on date of signing the Statement of Accounts	EY and Management
Signed letter of representation	Signed letter of representation to be shared by management	Management
Statement of Accounts	Receipt and review of final set of Statement of Accounts when received, confirming all changes and adjustments made as agreed	Management and EY

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion.