



Hampshire County Council

Audit results report

Year ended 31 March 2021

September 2021



September 2021

Dear Audit Committee Members

We are pleased to attach our Audit Results Report, for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Hampshire County Council for 2020/21.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Hampshire County Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of Audit Committee, other members of the 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 Audit Committee meeting on 29 September 2021.

Yours faithfully

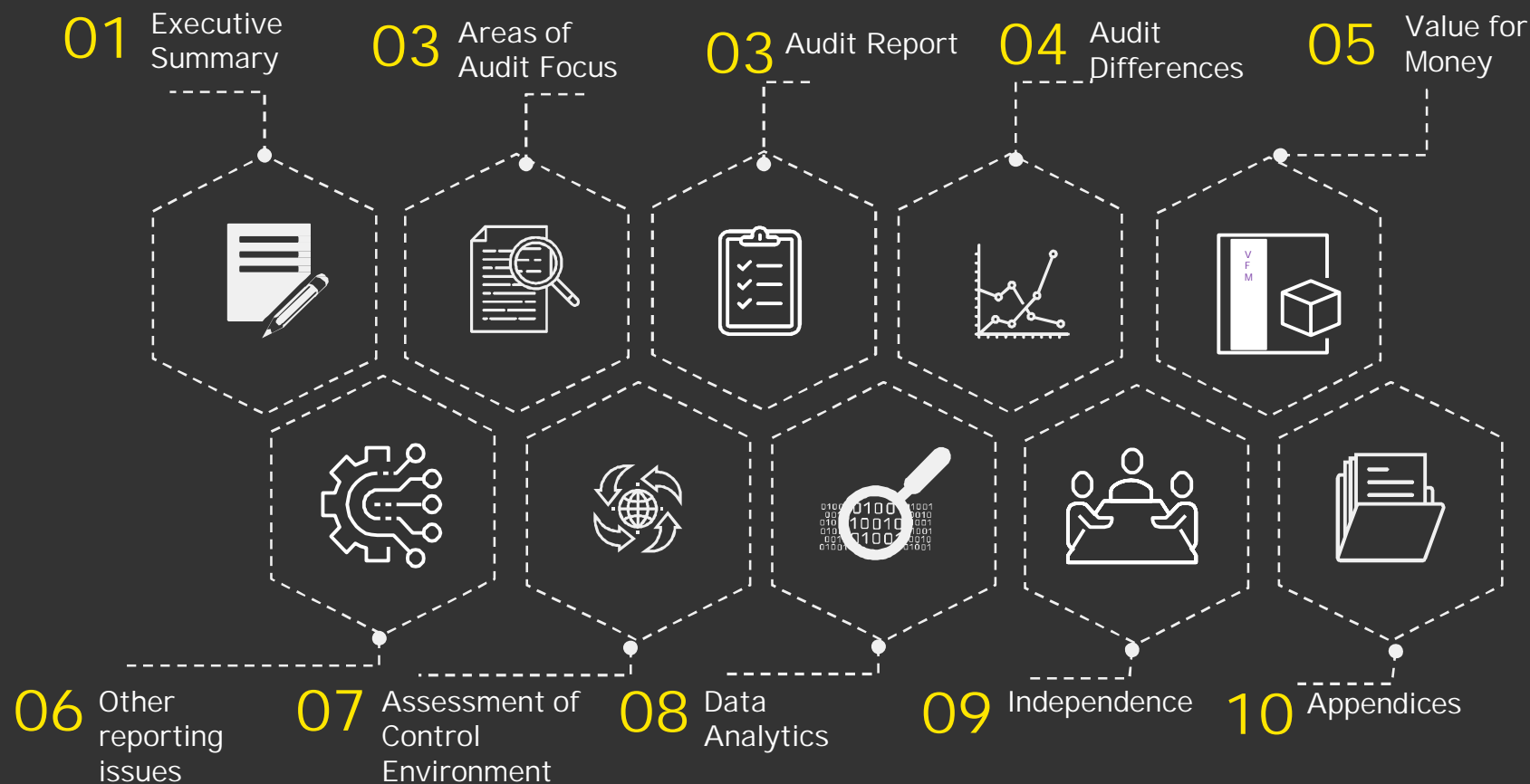
Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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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.



01

Executive Summary



Executive Summary

Scope update

In our Audit Planning Report presented at the July 2021 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes in materiality

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £42.5million, with performance materiality, at 75% of overall materiality, of £31.9 million, and a threshold for reporting misstatements (nominal amount) of £2.1million. This was based on prior year's final materiality. This was re-assessed at the year end based on 2020/21 Accounts. Audit procedures have been performed using a materiality of £46.5 million, with performance materiality, at 75% of overall materiality, of £34.9 million, and a threshold for reporting misstatements (nominal amount) of £2.3 million. The basis of our assessment has remained consistent with prior years at 1.8% of gross expenditure on services.

Information Produced by the Entity (IPE): As a result of Covid-19, we identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited;
- Agree IPE to scanned documents or other system screenshots; and
- Gained our own access to the accounting software to enable us re-run reports ourselves

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

Executive Summary

Status of the audit

We have substantially completed our audit of Hampshire County Council's (HCC) financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise. A list of outstanding items can be seen at Appendix C.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the financial statements which could influence our final audit opinion.

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020, we are still required to consider whether HCC has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to HCC a commentary against specified reporting criteria (see below) on the arrangements HCC has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Status of the audit – Value for Money

In the Audit Plan, we reported that we were yet to finalise our value for money (VFM) risk assessment. We have now completed this work and have not identified any risk of significant weakness against the three reporting criteria we are required to consider under the National Audit Office's (NAO) 2020 Code. We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary within 3 months of issuing our opinion on the accounts, as part of issuing the Auditor's Annual Report.



Executive Summary

Audit differences

We identified one audit difference that management have chosen not adjust due to materiality. The net impact of unadjusted audit difference is a credit of £13.5 million to the Balance Sheet (Debtors) and a debit to the CIES (Council Tax Income). The misstatement arose as a result of a timing difference of returns being received from billing authorities after preparation of draft accounts). We agree with management that this is not material.

We also note that there have been a number of disclosure errors which have been adjusted for by management. The largest disclosure error related to the Property Plant & Equipment (PPE) Note where there was a material reclassification error in the Gross Book Value and Accumulated Depreciation figures (NBV remains correct therefore no impact on Balance Sheet or reserves).

Further detail can be seen in Section 4.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the County Council. We have no matters to report as a result of this work.

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 our report, is specified by the National Audit Office.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020-21 WGA Data Collection Tool and update the guidance that is available for preparers. Based on the last available update the data collection tool and guidance was not expected to be available until December 2021. Therefore the 2020-21 WGA component data will not be available for auditors to review until later in the year. Group Audit Instructions and the timetable for 2020-21 will necessarily follow any changes HMT make to the DCT and process.

We will report any matters arising from this work to the Audit Committee, and certify the completion of the audit after these procedures are completed.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of HCC's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Audit findings and conclusions: Misstatements due to fraud or error

- We have no findings to report to the Audit Committee.

Audit findings and conclusions: Inappropriate capitalisation of revenue expenditure

- We have no findings to report to the Audit Committee.

Audit findings and conclusions: Investment property valuation

- We have engaged EY Valuation experts to assist in the testing of investment properties given the material uncertainty due to the fact that more valuer judgement is required as there is less transactional evidence to support market assumptions. Their report is still outstanding.

Audit findings and conclusions: Land and buildings valuation

- We have engaged EY Valuation experts to assist in the testing of assets valued using the Existing Use Value (EUV) valuation method and to advise on appropriateness of assumptions. Their report is still outstanding.
- We noted a reclassification difference in opening balances which has been agreed and corrected by management.
- We have also noted a difference in the indexation of assets not revalued in the year which we are in the process of agreeing with management.

Audit findings and conclusions: IAS 19 pension accounting

- We are awaiting the final results of the work performed by the Pension Fund Auditor.
- We have engaged our specialists EY Pensions to assist in our conclusions over the completeness and accuracy of the model used by the actuaries in determining the obligation attributable to the County Council, in order to satisfy the requirements of the revised ISA. This work is still ongoing.
- Our procedures to date have not noted any issues to be brought to the attention of the Audit Committee, and we will provide a verbal update at the Audit Committee meeting.

Audit findings and conclusions: Private Finance Initiatives

- Following the adjustments noted in the prior year management are working on an alternative Streetlighting PFI model. We have confirmed with management that this "re-work" is not in place for 2020/21. The classification difference noted last year, therefore still remains for the financial year ended 31 March 2021.



Executive Summary

Areas of audit focus - continued

Audit findings and conclusions: Going concern disclosure

- We have agreed the layout and content of the disclosure with management and will review on receipt of the final statements.
- We have no other findings to report to the Audit Committee

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

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 and which is unknown to you.

Independence

Please refer to Section 9 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate 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 identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

The risk of management override at the HCC is mainly through the possibility that management could override controls and manipulate in-year financial transactions that have an impact on the General Fund's medium- to longer-term projected financial position.

The risk is focused in non-routine transactions as they are not protected by system controls and the robust segregation of duties in routine transactions. These non-routine and estimation transactions are also more subjective and therefore more susceptible to management override. We are specific that at the authorities, this risk only manifests itself in any estimates and judgements that impact the General Fund.

What did we do?

- We enquired of management about risks of fraud and the controls put in place to address those risks.
- We gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- We considered the effectiveness of management's controls designed to address the risk of fraud
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed accounting estimates for evidence of management bias; and
- We evaluated the business rationale for any significant unusual transactions
- We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluate for business rationale.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances in estimates of inappropriate judgements from management bias 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 HCC's normal course of business.





Areas of Audit Focus

Significant risk

Inappropriate capitalisation of revenue expenditure (risk of fraud in revenue and expenditure recognition)

What is the risk?

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.

What judgements are we focused on?

There is a risk that management will inappropriately capitalize revenue expenditure to improve the financial position of the general fund. Capitalized revenue expenditure can be funded through borrowing with only minimal minimum revenue provision ("MRP") charges hitting the general fund, deferring the expenditure for 30+ years when the borrowing is repaid.

Due to the environment the County Council operates in there could be incentive to improve the general fund balance.

As such, we have focussed on significant additions to Property, Plant & Equipment (PPE) and managements judgement as to what they recognise as capital and what they recognise as revenue spend.

What did we do?

We have extended our testing of items capitalized in the year by raising our combined risk assessment. This means we will identify a larger sample of key items, as our testing threshold will be lowered, and select a large representative sample through the use of our audit risk tables.

For significant additions (including capitalized labour (staff costs), borrowing costs and other acceptable costs) we examined invoices, capital expenditure authorizations, leases and other data that supported these additions and ensured that the items are capital in nature, and did not include revenue items.

We have designed additional journal tests to identify high risk journals that may be an indication of management override. We reviewed journals where management have capitalized expenditure outside the normal process. Specifically; Where management have posted to additions from outside the capital codes, and where management have manually posted to the capital codes from another expenditure code.

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition including any PPE additions which have been inappropriately capitalised and should have been charged to revenue.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of HCC's financial position.





Areas of Audit Focus



Valuation methods applied

What is the risk/area of focus?

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.

What did we do?

We have:

- Considered the competence, capability and objectivity of the County Council's valuer;
- Considered the scope of the valuer's work;
- Ensured assets have been revalued annually as required by the Code;
- Considered if there are any specific changes to assets that should have been communicated to the valuer;
- Sample tested key inputs used by the valuer when producing valuations (for example, income from leases);
- Considered the results of the valuer's work and engaged EY Valuation experts (EYRE) to assist in testing the valuation of assets that may be more susceptible to market volatility to respond to potential risks, including the impact of COVID-19.
- Challenged the assumptions used by the valuer by reference to external evidence;
- Tested journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;
- Reviewed the disclosures to ensure that adequate disclosures are made in relation to estimation uncertainty.

Conclusion: We have substantially progressed our work in this area. We are yet to receive the final report from the EY Valuations team. We will inform the Audit Committee verbally of progress made in relation to this and include any adjustments arising as a result of our review. These adjustment, if any, will be communicated with management.

At the time of writing the report, no findings had been noted by the audit team that required communication to the Audit Committee.



Areas of Audit Focus



Valuation methods applied

What is the risk/area of focus?

Valuation of land and buildings

Land and buildings is one of the most significant balances in the HCC's 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.

What did we do?

We have:

- Considered the competence, capability and objectivity of the Authority's valuer;
- Considered the scope of the valuer's work;
- Ensured land and building assets have been revalued within a 5 year rolling programme as required by the Code;
- Considered if there are any specific changes to assets that should have been communicated to the valuer;
- Sample tested key inputs used by the valuer when producing valuations (for example cost, area, fees);
- Considered the results of the valuer's work and engaged EY Valuation experts (EYRE) to assist in testing the valuation of assets that may be more susceptible to market volatility to respond to potential risks.
- Challenged the assumptions used by the valuer by reference to external evidence;
- Tested journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;
- Tested a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct; and
- Reviewed assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated.
- Reviewed the disclosures to ensure this is adequate in relation to estimation uncertainty

Conclusion:

We have noted a reclassification difference in opening balances which has been agreed and corrected by management. Further detail can be seen in Section 4.

We have also noted a difference in our analysis of assets not revalued in the year based on the indices used in calculating this analysis and we have recorded a judgmental misstatement. This results in a difference of £35 million which we are in the process of agreeing with management and expect them to adjust.

We are yet to receive the final report from the EY Valuations team. We will inform the Audit Committee verbally of progress made in relation to this and include any adjustments arising as a result of our review. These adjustment, if any, will be communicated with management.



Areas of Audit Focus



Valuation methods applied

What is the risk/area of focus?	What did we do?
<p>Pension liability valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the CC to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued by the actuary to the County Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.</p> <p>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.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hampshire County Council, including the review of Hampshire Pension Fund's financial statements and comparison to the year end asset value with the estimate used by the actuary when producing the County Council's IAS 19 report. (note this has not yet concluded); • Assessed the work of the Hampshire Pension Fund actuary (AoN Hewitt) including the assumptions they used by relying on the work of PWC – Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered review of this report by the EY actuarial team; and • Reviewed and tested the accounting entries and disclosures made within HCC's financial statements in relation to IAS19; and <p>One issue has arisen across all local government audits that needs to be resolved prior to us being able to fully conclude our work. This is in relation to the impact of the new auditing standard on accounting estimates. We planned to take an audit approach to this estimate based on procedures to evaluate management's process. The new auditing standard 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. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We will provide the Committee with a verbal update on progress at the 29 September 2021 meeting.</p> <p>Conclusion: We are yet to conclude on this work and will provide the Audit Committee with an update at the 29 September meeting.</p>



Areas of Audit Focus

What is the risk/area of focus?	What did we do?
<p>Private Finance Initiatives The Council has two PFI contracts 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.</p>	<p>We have:</p> <ul style="list-style-type: none"> Reviewed for any changes in the financial model made from previous years and confirmed the assumptions used continue to be appropriate. Reviewed and tested the accounting entries and disclosures made within the Council's financial statements <p>In the prior year, we involved EY specialists in this area to ensure accounting treatment and values proposed by the Council is appropriate. This work included analysis of the contracts and review and consideration of the financial model. Following this review some adjustments were noted. Following these discussion, management are looking into a "re-work" of the model. However this has not been completed for the 2020/21 financial statements. We have therefore noted similar adjustments to the prior year.</p> <p>Conclusion: In the prior year, the work conducted by EY specialists has identified a difference in the streetlight model used. This results from the Council's use of a fixed annuity approach, whereas we judge the actual interest rate can be calculated. We have considered the impact on the 2020/21 Financial Statements and this difference results in a classification adjustment between headings in the Comprehensive Income & Expenditure Statement of £19.5 million, and an impact to the Balance Sheet of £1.273 million. Management have chosen not to adjust this difference due to materiality.</p>
<p>Going Concern There is a presumption that the County Council will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. There is a need for the Authority to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.</p> <p>The Authority is then required to ensure that its going concern (or basis of preparation) disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p> <p>We consider the unpredictability of the current environment to give rise to a risk that the Authority will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.</p> <p>There are also additional procedures we will need to perform to comply with the new International Standard of Auditing in relation to Going Concern which is applicable for this year end (ISA 570),</p>	<p>Procedures we are performing:</p> <ul style="list-style-type: none"> Obtaining Management's going concern assessment and reviewing for any evidence of bias and consistency with the accounts; Reviewing the financial modelling and forecasts prepared by the County Council. We considered and tested key assumptions, focusing on the reasonableness of the liquidity forecasts up to a date of 12 months after the signing date of the accounts and opinion. This assessment therefore needs to extend beyond the 2021/22 financial year, and into 2022/23; Ensuring that an appropriate going concern disclosure has been made within the financial statements; Reviewing the County Council's approach to identifying and disclosing events after the balance sheet date; and Considering the impact on our audit report and comply with EY consultation requirements. <p>Conclusion: We have reviewed the cashflow forecasts prepared by the County Council and are satisfied with the reasonableness of the assumptions which covers the period to 31 March 2023.</p> <p>We have agreed the content and layout of the disclosure with management and will review on receipt of final Statement of Accounts.</p>



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO HAMPSHIRE COUNTY COUNCIL

Opinion

We have audited the financial statements of Hampshire County Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Balance Sheet;
- Cash Flow Statement;
- Comprehensive Income and Expenditure Statement
- and related notes 1 to 31

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hampshire County Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of to March 2023 from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.



Audit Report

Draft audit report

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021

We have nothing to report in these respects

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Finance Officer Responsibilities set out on page 31, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.



Audit Report

Draft audit report

Our opinion on the financial statements

We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Transport Act 2000,
- Education Act 2002 and school Standards and Framework Act 1998 (England) applicable to Local education authorities in receipt of Dedicated Schools Grant,
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- National Health Service Act 2006,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Hampshire County Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit and those charged with governance, and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

In common with all audits under ISAs (UK), we are required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Authority's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Audit General (C&AG) in April 2021, as to whether Hampshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Audit General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Hampshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.



Audit Report

Draft audit report

Our opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Hampshire County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

This report is made solely to the members of Hampshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.






04 Audit Differences

Audit Differences

Summary of unadjusted differences

We highlight the following misstatements to the financial statements which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2021			Effect on the current period:		Balance Sheet		
	Other comprehensive income	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Equity Debit/ (Credit)
Known differences:							
• Overstatement of Council Tax and NDR Income (timing difference)		13,536,675	(13,536,675)				
Judgemental differences:							
• PFI model differences		1,271,000	2,000			-1,273,000	
• Property, Plant & Equipment valuation (still to be concluded with management)	(35,084,210)			35,084,210			

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the statement of accounts for the year ended 31 March 2021.

Audit Differences

Summary of adjusted differences

We highlight the following material disclosure error which has been corrected by management:

The error relates to the Gross Book Value and Accumulated Depreciation figures in the PPE Note. We note that these adjustment do not impact the Net Book Values (NBVs) and therefore there is no impact on the Balance Sheet. The differences noted are as follows:

Other Land and Buildings - £145,670k

VPF&E - £9,229k

Infrastructure - £21,036

Surplus - £162k

These are historical difference that have arisen due to a difference between SAP GL Codes and SAP Asset Register. The General Ledger balances included a number of nil NBV which were not loaded into the asset register.



05

Value for Money



Value for money

Hampshire County Council responsibilities for value for money (VFM)

Hampshire County Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, Hampshire County Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, Hampshire County Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

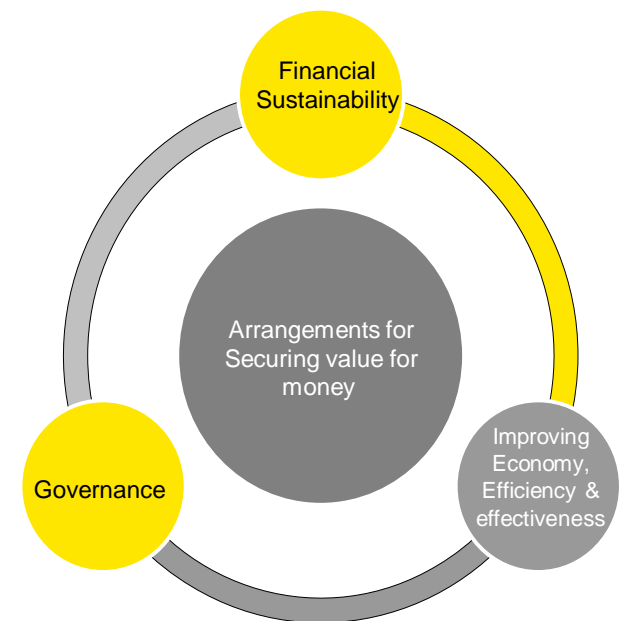
Throughout the audit we have performed a risk assessment in relation to the arrangements in place. This risk assessment looked at whether there was any risk of significant weaknesses in the VFM arrangements.

No significant risks were identified throughout the risk assessment stage.

Status of our VFM work

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary within 3 months of giving our opinion on the accounts, as part of issuing the Auditor's Annual Report.





06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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 our report, is specified by the National Audit Office.

We have not yet been able to perform the procedures required by the NAO on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020-21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Based on the last available update the DCT and guidance is not expected to be available until December 2021. Therefore the 2020-21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020-21 will necessarily follow any changes HMT make to the DCT and process

We will report any matters arising to the Audit Committee.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of HCC's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Consideration of laws and regulations; and
- Group audits

We have no significant findings to communicate.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of HCC 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 HCC has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. In our audit approach we place reliance on the ISAE 3402 report on the Hampshire County Council Integrated Business Centre.

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.

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.



08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2020/21 our use of these analysers in HCC's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

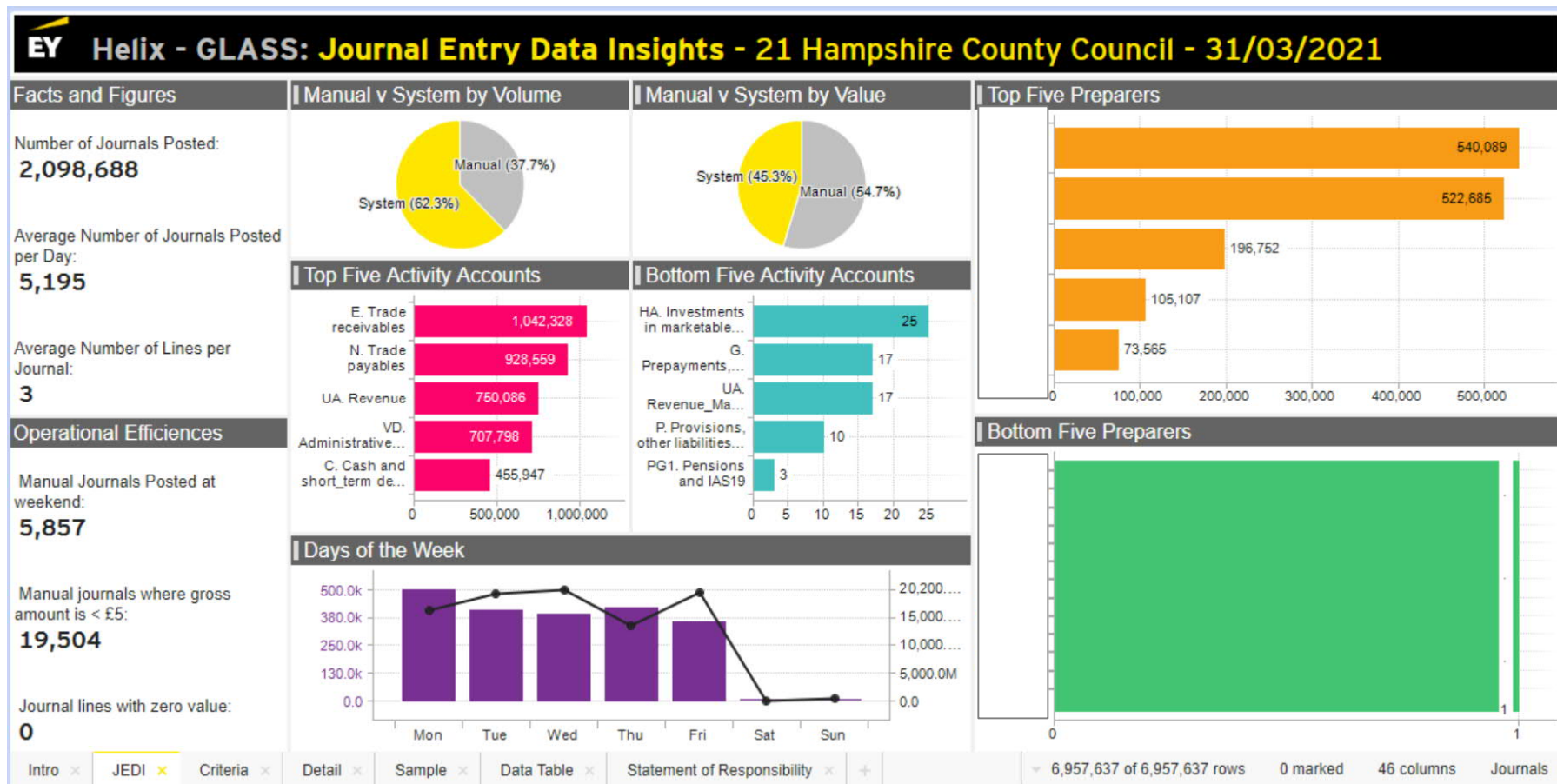


Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2020/21. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





Journal Entry Testing

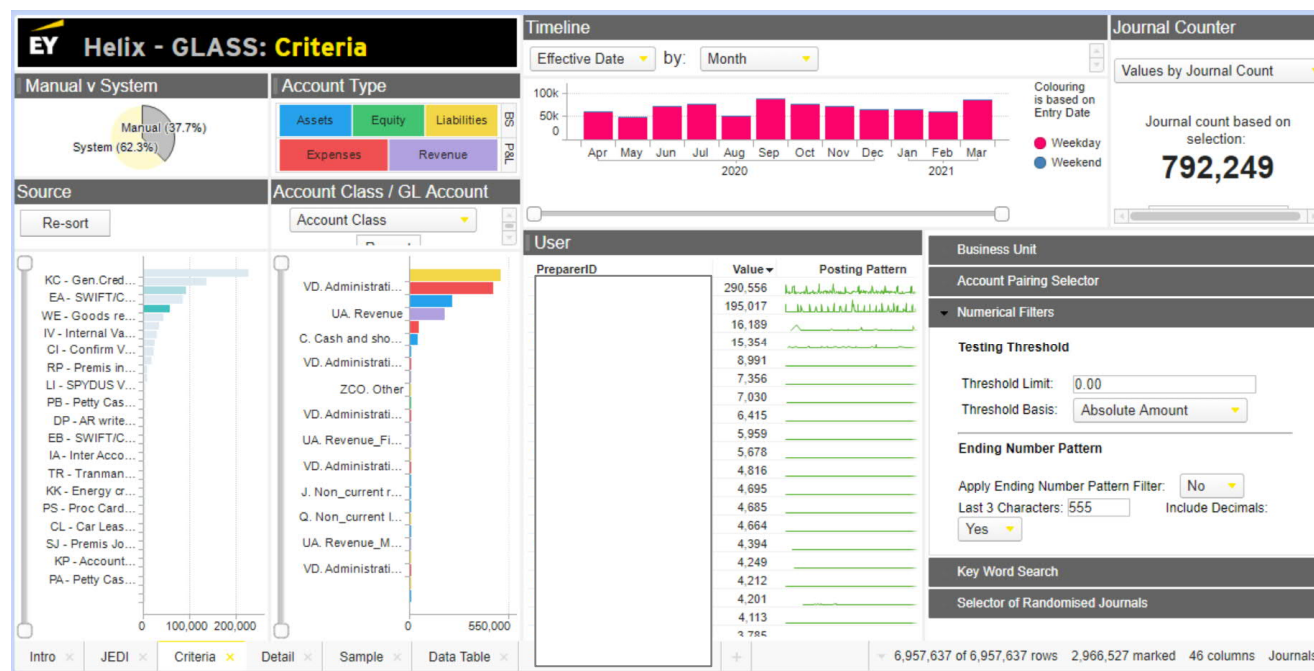
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2021

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



09

Independence

Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from insert start of financial year to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below. We highlight in the table below the most significant services that may be reasonably considered to bear upon our integrity, objectivity and independence

Description of service	Related independence threat	Safeguards adopted and reasons considered to be effective
ISAE 3402 report on Integrated Business Centre	Self-review threat	The work will be led and delivered by a separate SOC reporting team. No members of the audit team will work on this project. The remuneration of the Engagement Lead and the audit team are not impacted by this project.

As at the date of this report, we expect to be engaged for the above non-audit service for 2021/22. There are no other future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Board Report dated June 2021.

We complied with the APB Ethical Standards. 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 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 and your Audit Committee 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.

As part of our reporting on our independence, we set out below a summary of the fees due to us in relation to our audit of your financial statements for the years ended 31 March 2020 and 2021.

	Planned fee 2020/21	Final Fee 2019/20*
	£	£
Base Audit Fee – Code work	89,720	89,720
Non Audit Fee – ISAE 3402 report on IBC	56,500	56,500
	2020/21	2019/20
	£	£
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk	39,246	39,246
Scale fee variation – Covid-19 and Going Concern considerations, addressing risks on PPE valuation and IAS 19 work and VFM conclusion	TBC	26,443

* the variation for 2019/20 scale fee is still subject to approval by PSAA

2020/21 Fees:

We are not yet able to provide a final fee for the 2020/21 audit. This is for two reasons:

- The audit is not fully complete, as noted in the list of outstanding procedures set out in the appendices of this report.
- We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements.

The areas in which we have completed additional work and as such we will be proposing a fee variation to the base scale fee are:

- Revised ISAs in respect of Estimates and Going Concern as noted in the Audit Plan presented in June 2021
- Additional procedures in relation to Covid-19 and new value for money requirements
- Use of experts in relation to Pensions to satisfy revised ISA requirements.

Once we have completed the audit we will assess the final fee, discuss with management and provide an update to the Audit Committee.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	We relied on the ISAE 3402 report on the IBC to rely on controls with limited substantive testing performed in accordance with auditing standards	We relied on the ISAE 3402 report on the IBC to rely on controls with limited substantive testing performed in accordance with auditing standards	No change
Tangible Fixed Assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Trade payables	We relied on the ISAE 3402 report on the IBC to rely on controls with limited substantive testing performed in accordance with auditing standards	We relied on the ISAE 3402 report on the IBC to rely on controls with limited substantive testing performed in accordance with auditing standards	No change
Cash, borrowings and investments	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Pension Liability	Substantively tested all relevant assertions. We engaged EY Pensions to assist with reviewing actuary model.	Substantively tested all relevant assertions	We engaged our pensions specialists due to the requirements of ISA540 (revised)

Appendix A




Audit approach update - continued

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
PFI	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Developers Contributions	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Grants Received in Advance	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change





Appendix B

Required communications with the Audit Committee





There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report dated July 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report dated July 2021
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	This Audit results report

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	<p>This Audit results report</p> <p>No conditions or events were identified, either individually or together to raise any doubt about HCC's ability to continue for the 12 months from the date of our report</p>
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	This Audit results report
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Attending Audit Committee – 29 September 2021
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>Formal enquiry letter sent and response received from Chair of Audit Committee.</p> <p>and</p> <p>This Audit results report</p>

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	This Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	<p>Audit planning report dated July 2021 and</p> <p>This Audit results report</p>

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> Details of any inconsistencies between the Ethical Standard and Council's policy for the provision of non-audit services, and any apparent breach of that policy Details of any contingent fee arrangements for non-audit services Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	This Audit results report




Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	This Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	This Audit results report
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report 	This Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report dated July 2021 This Audit results report

Appendix C

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 
Valuations of investment properties and Land & Buildings	EYRE report outstanding	EY
IAS 19 Pension Liability	EY Pensions report in relation to completeness and accuracy of model used by actuary in determining Authority obligation. Pension Fund auditor final report outstanding	EY
PFI	Finalisation of adjustments	EY
Income and expenditure analytical review	Variance explanations to be obtained and reviewed for reasonableness by audit team	Management & EY
Workpaper finalisation	Finalisation of workpapers to be completed	EY
Management representation letter	Receipt of signed management representation letter	Management and audit committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
WGA	Receipt of instruction re. WGA procedures	EY
Check of Final Account i.e. post any adjustments made	Receipt and review of Final Accounts	EY and Management
Senior Manager and Associate Partner Final Review	Final Review of Audit Procedures	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. A draft of the current opinion is included in Section 3.

Management representation letter

Management Representation Letter – to be finalised on completion of all outstanding audit procedures

Kevin Suter

Ernst & Young LLP

Grosvenor House,

Grosvenor Square,

Southampton SO15 2BE,

This letter of representations is provided in connection with your audit of the financial statements of Hampshire County Council for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Hampshire County Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free from material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes controls, policies and procedures that we may have made to address the effects of the Covid-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and have therefore not adjusted them.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

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- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committees held through the period to the most recent meeting on the following date: [list date].
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter (14 January 2021) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [X] to the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note [X] to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

Management representation letter

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F. Subsequent Events

1. Other than the events described in Note 26 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to the period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investment properties, land and buildings and the IAS 19 actuarial valuations of pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

1. We confirm that the significant judgments made in making the valuation of investment properties, land and buildings, PFI and IAS19 pensions liability (the accounting estimates) have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.

3. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out any specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Signed on behalf of Hampshire County Council

I confirm that this letter has been discussed and agreed by the Audit Committee

Signed:

Position: Chief Finance Officer

Date:

Position: Chairman of the Audit Committee

Date:

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