

**Hampshire County
Council**

**Provisional Audit results
report**

Year ended 31 March 2022

16 September 2022



EY

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

16 September 2022

Dear Audit Committee Members

2022 Audit results report

We are pleased to attach our provisional audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Committee at its meeting scheduled for 28 September 2022 on further progress to that date and explain the remaining steps to the issue of our final opinion, including our current position on your accounting for infrastructure assets.

The audit is designed to express an opinion on the 2022 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 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 28 September 2022.

Yours faithfully Audit Committee

Kevin Suter

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.psa.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 July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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 26 May 2022 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 £46.5m. This was based on prior year gross expenditure on provision of services. We have calculated this using year end figures and our revised materiality level is £49m. The basis of our assessment has remained consistent at 1.8% of gross expenditure on provision of services. This results in updated performance materiality, at 75% of overall materiality, of £37.5m, and an updated threshold for reporting misstatements of £2.4m.

Status of the audit

Our audit work in respect of the County Council's opinion is substantially complete.

Details of each outstanding item, actions required to resolve and responsibility is included in 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 Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 3.

Conversations remain ongoing with management around the infrastructure risk identified in our audit plan, of which further details can be found in section 02 of this report. The impact of this is likely to delay finalisation of the Statement of Accounts whilst management wait for further publication and guidance from CIPFA. We are happy to provide an update at the upcoming Audit Committee.

Executive Summary

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the County Council have 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 the County Council a commentary against specified reporting criteria (see below) on the arrangements the County Council 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 the County Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the County Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the County Council 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 had yet to complete our value for money (VFM) risk assessment, but presented to the Committee that we had identified one risk of against the three reporting criteria, specifically financial sustainability, at that time.

We have completed our risk assessment, and revisited our assessment through to the on completion of the audit of the financial statements and remain satisfied that there are no other risks identified.

We are still concluding on our procedures to address the identified risk - further details of which can be seen on page 25. At this time, we have no matters to report by exception in the auditor's report (see Section 03).



Executive Summary

Audit differences

Uncorrected misstatements identified during the audit have no impact on the deficit of provision of service
We also note that there have been a number suggested amends to disclosures and narrative which have been adjusted for by management.

Details can be found in Section 4; Audit Differences.

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.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission 2021/22 due to the ongoing delays in releasing data collection tool and instructions from 2020/21.

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

We have no other matters to report.

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.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Hampshire County Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Audit findings and conclusions: Inappropriate capitalisation of revenue expenditure due to fraud or error

- We have no findings to report to the Audit Committee

Audit findings and conclusions: Misstatements due to fraud or error

- We have no findings to report to the Audit Committee

Audit findings and conclusions: Infrastructure Assets

- We have not been able to sufficiently conclude on existence and valuation of infrastructure assets.
- With guidance expected imminently from CIPFA, management have opted to wait for the outcome of this guidance in order to try and resolve the issue.

Audit findings and conclusions: Valuation of Investment Properties and Land & Buildings

- Our work has not yet been finalised but we have no findings to report at this time to the Audit Committee.

Audit findings and conclusions: IAS 19 Pension Accounting

- We are waiting to receive the final results of the work performed by the Hampshire Local Government Pension Fund Auditor. From their work to date we have identified pension fund assets to be overstated by £2m, this has been taken to our summary of uncorrected misstatements at section 4.
- 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. Subject to final review, this has raised no issues.

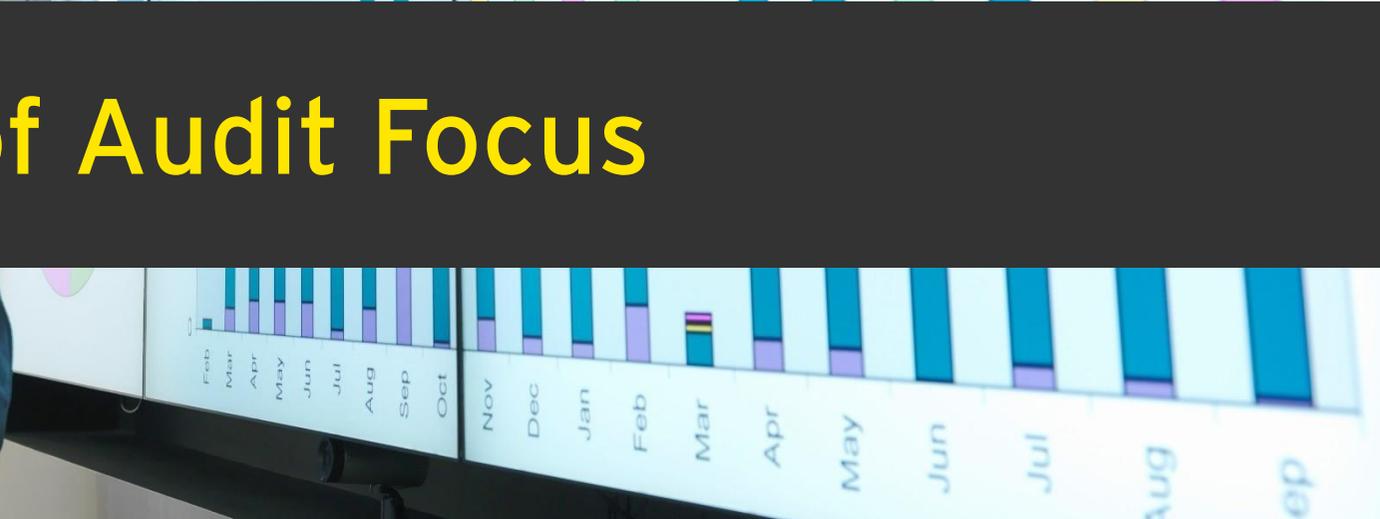
Audit findings and conclusions: Private Financing Initiative (PFI)

- We have engaged our specialists to assist in our conclusions over the accuracy of the streetlighting model following the recommendations made in the prior year as we have identified there are still some differences in contingent rental between models. This work is yet to be concluded to quantify the audit difference for 21/22.

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.



02

Areas of Audit Focus



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.

The risk in local government is in areas where management make judgements that impact whether material items of expenditure are financed from capital or revenue resources.

As such we associate this risk with capital additions.

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 PPE and managements judgement as to what they recognise as capital and what they recognise as revenue spend.

What did we do?

For a sample of recorded capital additions we examined invoices, capital expenditure authorisations and other data that support the appropriateness of these additions, including that they have been recorded in the correct period.

We ensured that the items are capital in nature as per the definition of capital expenditure in IAS 16, and did not include revenue items.

We followed a fully substantive audit approach and utilised our data analytics capabilities to assist with our work through identifying high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

Our testing is substantially complete, subject to one query that remains outstanding.

Overall our audit work to date has not identified any material issues or unusual transactions to indicate any misreporting of the County Council's financial position.



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 County Council 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 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;
- We evaluated the business rationale for any significant unusual transactions; and
- 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 of inappropriate judgements 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 the County Council's normal course of business.



Areas of Audit Focus

Significant risk

Infrastructure Assets

What is the risk?

Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.

Nationally, audit firms have identified an issue with applying this accounting treatment to infrastructure assets. Across the country Authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

We have increased the level of risk since our planning report.

What judgements are we focused on?

The risk is that the gross cost and gross accumulated depreciation of the Council's infrastructure assets are materially overstated, as assets or components that have been replaced are no longer recognised.

This may have no impact on the net book value if the assets were fully depreciated at the point of replacement, but if not then the net book value may also be materially misstated.

Furthermore, the Council needs to be able to demonstrate that it can associate the recorded values to specific identifiable assets; that they exist at the balance sheet date and are held at an appropriate value.

What did we do?

- We have reviewed the draft financial statements to identify prima facie whether the County council is recording disposals of infrastructure assets, or components.
- We have made enquiries to understand management's current processes, including bringing forward our knowledge from previous year's audits.
- We identified whether the process is compliant with the Code.
- We considered whether the underlying issue is relevant to other categories of property, plant and equipment, and focused our existence testing accordingly.

What are our provisional conclusions?

- We have provisionally concluded that the accounting of the County Council for Infrastructure Assets is not in line with the current CIPFA Code.
 - Gross cost and gross accumulated depreciation have continued to accumulate annually without recorded disposals.
 - The Council records infrastructure asset within the fixed asset register and the general ledger as a single line entry per annum. This does not provide sufficient information to identify the replacement of an asset or component, or demonstrate the existence of the asset or accuracy of the net book value.
 - HCC conclude it is impracticable for them to make a correction.
- We have discussed the matter with management, who are waiting for CIPFA to provide an expected update to the Code in September 2022, and management have requested we await the outcome of this guidance before determining next steps.
- We will evaluate if the Council's accounting is in line with that update, when published.
- We are aware that DLUHC are potentially considering a statutory instrument on the accounting for this issue, and will also need to consider that if and when issued.
- There is a risk that the Council may still not be able to fully comply with either amendment. This issue may impact the format of our audit opinion.



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 organisation's valuer;
- ▶ Considered the scope of the valuer's work;
- ▶ Ensured L&B 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;
- ▶ Considered the results of the valuer's work;
- ▶ 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;
- ▶ Reviewed assets that are not subject to valuation in 2021/22 to confirm the remaining asset base is not materially misstated.
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements

Conclusion:

Our work is well progressed but not yet complete. We have now received all the support we need to finalise our testing.

As at the date of this report we have no findings to report, and will update the Audit Committee at the 28 September meeting should any issue arise from completing the testing.



Areas of Audit Focus



Valuation methods applied

What is the risk/area of focus?

Pension Liability Valuation

The Local County Council Accounting Code of Practice and IAS19 require the County Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The County Council must also do similar in respect of the Police Pension Fund.

Hampshire County Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet.

At 31 March 2022 this totals £1.5bn. The information disclosed is based on the IAS 19 reports issued to Hampshire County Council by the actuary to the County Council and also the Firefighter Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

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.

What did we do?

We have:

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hampshire and Isle of Wight Fire & Rescue County Council;
- Assessed the work of the LGPS 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 any relevant reviews by the EY actuarial team;
- Evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and
- Reviewed and tested the accounting entries and disclosures made within the financial statements in relation to IAS19.

Conclusion:

We have completed our review of the accounting entries & disclosures and our review of the assumptions used by the actuaries.

The Liability rollforward is subject to final review, but has not raised any issues.

We have been able to reconcile our roll forward with the figures provided by the actuary within 1% of the liability, which we judge to be acceptable.

We are awaiting the finalised assurance letter from pension fund auditors - results to date note an overstatement of pension fund assets of £2m.

We will provide the Audit Committee with an update at the 28 September meeting.



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 £129 million in 2021/22. These were both operational and recognised in the Council's balance sheet as at 31 March 2022.</p>	<p>We have:</p> <ul style="list-style-type: none">▶ Reviewed for any changes in the financial model made from previous years and confirm the assumptions used to continue to be appropriate.▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements▶ We obtained an update on the recommendation raised in relating to the street lighting PFI in our 2020/21 audit results report.▶ We involved our EY specialist to review the updated streetlighting model which was updated by management in response to previous audit findings. <p>Conclusion: We did not identify any issues in our testing of the waste PFI. We identified there were still differences in the street lighting PFI in relation to the contingent rental calculation and our expert is quantifying the impact on the SoA for 21/22. This report remains outstanding.</p>



03 Audit Report



Audit Report

Impact of Infrastructure Assets on the Audit report

We have summarised the current conclusion with regard to infrastructure assets on page 12.

We will continue to discuss the matter and evaluate the Council's accounting when the expected Code update is provided.

We are, therefore, currently unable to determine the appropriate audit opinion.

We highlight there is a risk that a qualified opinion may be necessary.



04 Audit Differences





Audit Differences

Summary of unadjusted differences

In addition We highlight the following misstatements to the financial statements and/or disclosures 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 2022 (Currency'000)		 Effect on the current period:	 Net assets (Decrease)/Increase				
	OCI Debit/(Credit)	Comprehensiv e 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)
Errors							
Known differences:							
▸ Overstatement of pension fund assets				(2,483)			2,483
▸ Misstatement in Council Tax & NDR precept - BS			35,535		(44,474)		8,939
Cumulative effect of uncorrected misstatements			35,535	(2,483)	(44,474)		11,422

Misstatements in the Council Tax and NDR precept arise as this information is provided by the Collecting bodies after the production of the County Council's accounts.



05

Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

The 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, The 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, The Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local County Council accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

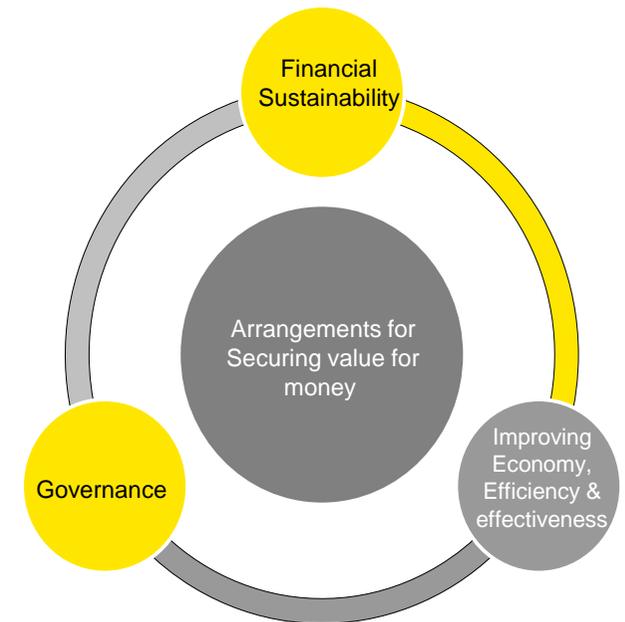
Risk assessment

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. We identified one area of risk identified around the arrangements that the Council has in place in relation to financial sustainability - including the impact of Covid-19 on the medium term financial planning. We have identified this risk from the Chief Finance Officer's statements in the 2022/23 budget papers regarding the projected deficit in the medium term financial position to 2025/26, and that "without some form of Government intervention we are not financially sustainable in the medium term, even if we were to find some way of bridging the deficit to 2025/26".

Status of our VFM work

At the date of this report we have gained an understanding of the arrangements management has in place, and received supporting evidence from management. Final review is outstanding, but our provisional view is that the Council has appropriate arrangements in place which addresses our identified risk.

We will issue our VFM commentary in the Auditor's Annual Report.





Value for Money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>We have identified the risk of the impact of Covid-19 on the medium term financial planning. We have identified this risk from the Chief Finance Officer's statements in the 2022/23 budget papers regarding the projected deficit in the medium term financial position to 2025/26, and that " without some form of Government intervention we are not financially sustainable in the medium term, even if we were to find some way of bridging the deficit to 2025/26".</p>	<p>Financial Sustainability</p>	<ul style="list-style-type: none"> - Reviewed budget papers - Reviewed annual budget setting process - Reviewed cabinet meeting minutes - Engaged in a number of discussions with management to understand the extent of the issue and their responses, obtained and reviewed supporting evidence.

Findings

From our procedures performed thus far, we are aware that there is a monthly financial resilience meeting of the Directors of services to monitor ongoing pressures. In addition, Management are engaging in individual MTFS sessions with Directors of services on the budget gaps and cost saving ideas.

Management have maintained an open dialogue with DLUHC as they work through their action plan.

It is evident from our work performed that management has a detailed grasp of the issues and have put in place the necessary arrangements and processes in response. Therefore, in our judgement we assess the Council's arrangements to be appropriate and without significant weakness.

More detail of the procedures performed will be provided in our VFM commentary which will be included in our Auditor's Annual Report.

Recommendation(s)

The County Council should maintain the level of monitoring and review it currently has in place whilst these strains/pressures continue.



06 Other reporting issues

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 2021/22 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 2021/22 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 have not yet issued instructions for 2021-22 due to ongoing delays in previous years submissions.

We will report any matters arising to the Audit Committee.

Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (as amended) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the County Council 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 County Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014 (as amended). We did not identify any 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 the County Council’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;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations;

We have no significant findings to communicate.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the County Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the County Council 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. As we have adopted a substantive approach (with some reliance on the ISAE 3402 report on the IBC), we have therefore not tested the operation of any controls.

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 2021/22 our use of these analysers in the County Council's audit increased having a digital audit "DigiGam" audit approach, using the County Council's full journal dataset in our planning and risk assessment procedures through to execution which 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.



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 the County Council, and its members and senior management and its affiliates, including all services provided by us and our network to the County Council, its members and 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 01 April 2022 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 2022 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. Further detail of all fees has been provided to the Audit Committee.

The non-audit fees relate to the independent Service Organisation Controls Type 2 Assurance Report for the Hampshire Integrated Business Centre (IBC).

To ensure our independence as external auditor to Hampshire County Council is not impaired, we are required to seek approval from PSAA (Public Sector Audit Appointments Ltd) to provide these non-audit services. This approval has been gained.

We have adopted the following safeguards:

- The work will be led and delivered by a separate Service Organisation Controls (SOC) reporting team. Members of the existing audit team at Hampshire County Council will not work on this project. The remuneration of the Engagement Lead and the audit team are not impacted by this project.
- The estimated fee is in line with market rates for this type of engagement. The engagement will have a clearly defined scope, as set out in the scope of work and this work would not influence our conduct of or the outcome of the audits.
- The SOC report issued will be generic in nature and not specific to a particular customer or IBC. The controls reviewed will be homogenous controls.
- The work is limited to review of control within the end processes at the IBC. It does not include any aspects of decision-making on behalf of the IBC or the Council. It will not involve giving any advice in relation to decisions the IBC/Council may take.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

	Proposed fee 2021/22	Note Ref	Proposed Final Fee 2020/21
	£		£
Scale Fee	89,720		89,720
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk	49,074	1	49,074
Scale fee variation - new auditing standard and Value for Money requirements	16,455	2	16,455
Scale fee variation - PFI expert	TBC	3	910
IAS 19 protocol fees	1,017	4	1,017
Total audit	TBC		157,176
Total other non-audit services - ISAE 3402 report on IBC	56,500		56,500
Total fees	TBC		213,676

Notes:

1. In our 2019/20 audit we set out the basis for a requested rebasing of the scale fees due to changes in regulatory requirements. These are ongoing impacts, therefore, we have continued to include this request based on the same level of inputs. From 2020/21 the fee impact increased by 25%, as PSAA's scale fee rates have increased by 25%.
2. From 2020/21, there are additional procedures required to satisfy the revised ISAs that have come into effect which may have additional costs, predominantly ISA540. The NAO's Code of Audit Practice 2020 also set out new requirements for our work and reporting on Value for Money. We have continued to include the impact at the lower end of the PSAA's communicated range, submitted in our 2020/21 fee variation proposal.
3. Fees in 20/21 relate to PFI expert required to quantify error as a result of error in streetlighting model. Model has been updated for 21/22 and we will require our expert to review the changes - as this work is still ongoing we are yet to conclude on this figure.
4. Fees are payable by the Pension Fund for the IAS19 protocol. HPF will not pay the fees, therefore, this is charged to each individual body.

- Fee discussions for 2020/21 remain ongoing with the PSAA.

Other communications

EY Transparency Report 2021

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 2021:

https://www.ey.com/en_uk/about-us/transparency-report-2021

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background shows the perforated metal of the cabinet shelves.

10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet.

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	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	No change
Tangible Fixed Assets	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	No change
Cash, borrowings and investments	Substantively tested all relevant assertions	No change
Pension Liability	Substantively tested all relevant assertions. We engaged EY Pensions to assist with reviewing actuary model.	No change

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 those charged with governance of UK entities. 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 May 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report dated May 2022
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 related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements 	This Audit results report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ 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. 	This Audit results report

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
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 entity ▶ 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 entity, 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. 	This Audit results report
Related parties	<p>Significant matters arising during the audit in connection with the entity'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 entity 	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 	Audit Planning Report dated May 2022 and This Audit results report

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
	<p>Communications whenever significant judgements 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 ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ 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. 	This Audit results report
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 	This Audit results report

Appendix B

		Our Reporting to you
Required communications	 What is reported?	  When and where
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
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
Code Requirements:	<ul style="list-style-type: none"> ▶ Auditors Annual Report ▶ VFM commentary 	To be confirmed. Required within 3 months of giving the auditor's 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 
Going concern review and disclosures	We have received management's cashflow forecast to support going concern disclosures, our review is in progress. Management's assessment paper to support this position remains outstanding and will be reviewed on receipt	Management and EY
Investment confirmations	Third party confirmations remain outstanding for a number of investment balances.	Management
PPE additions testing	Support outstanding to one query	Management
PPE valuations testing	Testing to be finalised, all support now received from management	EY
Infrastructure assets	Discussions ongoing with management on resolving and impact on audit report	Management and EY
Pensions	Liability rollforward work to be concluded by EY pensions team. Letter from pension fund auditors outstanding	EY and Management
PFI	Expert memo and quantification of error to be received from EY expert	EY
Final review	Final review by Manager and Partner and finalisation of audit files	EY
Subsequent event enquiries	Subsequent event enquiries to be shared by EY and responses provided by management on date of signing SoA	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, but we should point out that key disclosures on [going concern, directors' remuneration and impairment sensitivities] remain to be finalised and audited.

Management representation letter - provisional

NB this wording is provisional due to the incomplete work on infrastructure assets, we are currently unable to determine the final representations that are required

Ernst & Young
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 (“the Council”) for the year ended 31 March 2022. 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 financial position of Hampshire County Council as of 31 March 2022 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 2021/22.

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 2021/22
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 2021/22, and are free of 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 2021/22, 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 have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus 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 as such we have not corrected these.

Management representation letter - continued

Management Rep Letter

6. We confirm the County Council does not have securities (debt or equity) listed on a recognized exchange.

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

1. We acknowledge that we are responsible to determine that the County 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 improprieties;
- ▶ 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;
- ▶ 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 and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

3. We have made available to you all minutes of the meetings of the Council and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year 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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter - continued

Management Rep Letter

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 County Council Accounting in the United Kingdom 2021/22.

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 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) 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, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

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.

We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent.

E. Going Concern

1.Note 28.1 to the financial statements discloses all the matters of which we are aware that are relevant to the County 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.

F. Subsequent Events

1. There have been no events , including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to 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. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered including the impact resulting from the commitments made by the County Council, and reflected in the financial statements.

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local County Council Accounting in the United Kingdom 2021/22 , aligned with the statements we have made in the other information or other public communications made by us.

Management representation letter - continued

Management Rep Letter

J. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

K. 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, PFI and IAS19 pensions 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.

L. 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 the 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 2021/22.

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.

M. 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.

Yours faithfully,

Director of Corporate Operations

Chairman of the Audit Committee

Appendix E

Implementation of IFRS 16 Leases

In previous reports to the Audit Committee we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 has been further delayed. However, officers should be acting now to assess the County Council's leasing positions and secure the required information to ensure the County Council will be fully compliant with the Code when implemented. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures 
Data collection	<p>Management should:</p> <ul style="list-style-type: none"> ▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	<p>The County Council needs to agree on certain policy choices. In particular:</p> <ul style="list-style-type: none"> ▶ Whether to adopt a portfolio approach ▶ What low value threshold to set and agree with auditors ▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▶ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	<p>Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).</p>
Transitional accounting arrangements	<p>Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the County Council is lessee. However, there can be implications for some finance leases where the County Council is lessee; and potentially for sub-leases, where the County Council is a lessor, that were operating leases under the old standard.</p>
Ongoing accounting arrangements	<p>Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.</p>
Remeasurements and modifications	<p>Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.</p>

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ED None

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