

# External audit progress report

Hart District Council

July 2019

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This report is made solely to the Audit Committee and management of Hart District 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 Hart District 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 Hart District 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

## Risks around the 31 July deadline for publication of the financial statements

### Introduction

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts was brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes brought risks for both the preparers and the auditors of the financial statements:

- ▶ The Council has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers and internal quality assurance arrangements.
- ▶ As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

### Risk

To mitigate this risk we stated in our 2018/19 Audit Plan, presented to the Audit Committee on 28 March 2019, that we will require:

- ▶ good quality draft financial statements and supporting working papers by the agreed deadline;
- ▶ appropriate Council staff to be available throughout the agreed audit period; and
- ▶ complete and prompt responses to audit questions.

We stated in our audit plan, that if you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

### Outcome

- Despite the planning and the work carried out at the interim audit, the Council's 2018/19 financial statements were not provided in a form that was materially correct by 31 May 2019. (as discussed further in Section 2)
- No progress was made by the scheduled start of the audit on 24 June 2019, and therefore we have had to delay the external audit until September 2019.
- The Council must still publish a Statement of Accounts by 31 July 2019, with or without an audit opinion.



02

## Progress on the 2018/19 audit





# Progress on the 1819 audit

## Our work to support the production of the 2018/19 Financial Statements

### Planning and interim audits

To support the Council, in its production of the 2018/19 Financial Statements, we:

- ✓ engaged early and presented an interactive planning session, on 6 November 2019, with Capita discussing the risks and accounts issues for the 18/19 financial statements
- ✓ worked with the Council to facilitate early substantive testing, in March 2019;
- ✓ facilitated a faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2018/19 financial year.
- ✓ worked with officers to improve the use of EY Client Portal, which:
  - Streamlined our audit requests through a reduction of emails and improved means of communication;
  - Provided on demand visibility into the status of audit requests and the overall audit status;
  - Reduced the risk of duplicate requests; and
  - Provided better security of sensitive data.
- ✓ agreed the team and timing of each element of our work with you.
- ✓ agreed the supporting working papers that we require to complete our audit for both the interim visit in March and the final planned audit visit in July .

### Final audit - planned for 24<sup>th</sup> June to 19 July 2019

Despite the planning and the work carried out at the interim audit, the Council's 2018/19 financial statements were not fit for purpose. Issues identified, on a first review of the financial statements, include the following:

- 8 material issue to review
- 6 significant issue to review
- 5 immaterial items which should be resolved
- Scope for removing immaterial items

No progress was made resolving the issues with the accounts between their publication on 31 May, and the scheduled start of the audit.

Given the issues above we therefore took the decision not to commence the Council's financial statements. The eight material issues are discussed overleaf.

# Progress on the 2018-19 audit

## Poor production of the 2018-19 financial statements

### Material issues

Page	Material issues or concerns
9	<p><u>Narrative report</u> :</p> <ul style="list-style-type: none"> <li>Purpose of 'Telling the Story' was to ensure that a council has consistency in its reporting so that it is able to tie up the reporting of financial performance to the figures in the Statement of Accounts. Section 1.05 does not tie up to the Expenditure and Funding Analysis.</li> </ul>
22	<p><u>Cashflow Statement</u>;</p> <ul style="list-style-type: none"> <li>Cash and Cash Equivalents in the Cashflow states £2,854k, whereas the Cash and Cash Equivalents in the Balance Sheet shows £24,854k.</li> </ul>
31	<p><u>Note 3.10.1 - Senior officer remuneration</u>:</p> <ul style="list-style-type: none"> <li>No expenses allowances for any officers disclosed.</li> <li>Pension contributions have gone down when salaries have increased.</li> </ul>
43	<p><u>Note 5.01.1</u>:</p> <ul style="list-style-type: none"> <li>This table implies that Hart DC have a six year cyclical valuation programme, not five which is the maximum.</li> <li>It is unclear how assets valued in 2017/18 can have negative values.</li> <li>The total of £41,344k does not agree to the NBV of assets within Note 5.01.5 which shows £41,607k.</li> <li>This note does not appear to cover all asset categories - e.g. no column for infrastructure (expected at historic cost).</li> <li>No working paper has been provided to demonstrate that any assets not valued during the year are still materially correct as at the 31/3/2019 balance sheet date</li> </ul>
50 - 55	<p><u>Note 5.04 - Financial Instruments</u></p> <ul style="list-style-type: none"> <li>This note has not been updated for IFRS9. For example in the starting narrative the terminology on financial assets refers to loans and receivables, when it should be amortised cost.</li> <li>Tables for financial assets should be split between assets valued on the basis of (1) Fair Value through P&amp;L and (2) Amortised cost (Making the assumption nothing is valued at Fair Value through OCI).</li> <li>Available for Sale financial assets is no longer a recognised category. (and no similarly named reserve should be held).</li> <li>Officers need to include a transitional note for the impact this year, describing the changes from IAS39 to IFRS9.</li> </ul>
63	<p><u>Note 5.11.2 - Available for Sale Financial Instrument Reserve</u></p> <ul style="list-style-type: none"> <li>An available for sale financial asset reserve should no longer exist, due to the changes implemented by IFRS9.</li> </ul>
70 - 79 and 84	<p><u>Notes 5.14 and Note 7.02</u></p> <ul style="list-style-type: none"> <li>Both these notes will need to be updated for the latest development of the McCloud judgement</li> </ul>
91	<p><u>Note 7.07 - Accounting policies</u>:</p> <ul style="list-style-type: none"> <li>These need to be amended for IFRS 9</li> </ul>



03

Looking forward to completion of the 2018/19 audit



# Looking forward to completion of the 2018/19 audit

## Revised timetable of communication and deliverables

### New timeline

We reported our planned timetable in our Audit Plan presented to the Audit Committee on 28<sup>th</sup> March 2019. We suggest the following revised timetable for the audit, however this will depend on the production of a comprehensive and materially correct financial statements, supported by a good set of working papers and officers fully available to answer our audit queries over a three week period required for the fieldwork. We suggest the timetable below.

Audit phase	Timetable	Audit committee timetable	Deliverables
<b>Planning:</b>			
• Risk assessment and setting of scopes.	November 2018		
• Walkthrough of key systems and processes	January 2019		
<b>Interim audit</b>	March	28 March 2019	<b>Audit Planning Report</b>
• Substantive testing			
<b>Year end audit postponed</b>	July	24 July 2019	<b>Audit Progress Report</b>
<b>Year End audit</b>	September		
• revised timetable TBC			
	October	22 October 2019	<b>Audit Results Report</b> <b>Audit opinions and completion certificates</b>
<b>Audit Completion procedures</b>	December / January 2020	Audit Committee - date TBA	<b>Annual Audit Letter</b>

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