



Auditor's Annual Report 2022/23

East Hampshire District Council

May 2024

Key contacts

Your key contacts in connection with this report are:

Andrew Cardoza

Director

andrew.cardoza@kpmg.co.uk

Duncan Laird

Senior Manager

duncan.laird@kpmg.co.uk

Sanchita Dhoundiyal

Assistant Manager

sanchita.dhoundiyal@kpmg.co.uk

Contents	Page
Summary	3
Accounts audit	4
Value for money commentary	5

Summary

Introduction

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2022/23 audit of East Hampshire District Council (the ‘Council’). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Council on its website.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:

- **Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Council and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.
- **Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Council’s use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.
- **Other reporting** - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Findings

We have set out below a summary of the 2022/23 conclusions that we provided in respect of our responsibilities:

Accounts	<p>We issued an unqualified opinion on the 2022/23 Council’s accounts on 21 May 2024. This means that we believe the accounts give a true and fair view of the financial performance and position of the Council.</p> <p>We have provided further details of the key risks we identified and our response on page 4.</p>
Value for money	<p>We are required to report if we identify any matters that indicate the Council does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard.</p>
Other reporting	<p>We did not consider it necessary to issue any other reports in the public interest.</p>

Accounts audit

The table below summarises the key risks that we identified to our 2022/23 audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Findings
<p>Valuation of land and buildings</p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five-year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>The Council engages an expert valuer to provide a valuation of land and buildings at year end.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We considered the estimate to be balanced based on the procedures performed to challenge key assumptions within the valuation. Assumptions and judgements made by the valuer were in line with RICS methodology and considered appropriate.</p>
<p>Valuation of investment properties</p> <p>Investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.</p> <p>The Council engages an expert valuer to provide a valuation of investment properties at year end.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We considered the estimate to be balanced based on the procedures performed to challenge key assumptions within the valuation. Assumptions and judgements made by the valuer were in line with RICS methodology and considered appropriate.</p>
<p>Valuation of LGPS pension liability</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data</p> <p>The Council relies on the pension fund actuary to calculate the LGPS pension liability at year end.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>The assumptions adopted by the Authority were considered to be optimistic relative to our central rates but overall were within our normally acceptable range.</p>
<p>Management override of controls</p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We did not identify any material misstatements relating to this risk.</p>

Value for money

Introduction

We consider whether there are sufficient arrangements in place for the Council for each of the elements that make up value for money. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

Further details of our value for money responsibilities can be found in the Audit Code of Practice at [Code of Audit Practice \(nao.org.uk\)](https://nao.org.uk)

Matters that informed our risk assessment

The table below provides a summary of the external sources of evidence that were utilised in forming our risk assessment as to whether there were significant risks that value for money was not being achieved:

Governance statement	There were no significant control deficiencies identified in the governance statement.
Head of Internal Audit opinion	The HoIA opinion concluded that East Hampshire District Council’s framework of governance, risk management and control is ‘Reasonable’ and audit testing has demonstrated controls to be working in practice.

Commentary on arrangements

We have set out on the following pages commentary on how the arrangements in place at the Council compared to the expected systems that would be in place in the sector.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Summary of arrangements
Financial sustainability	No significant weaknesses identified
Governance	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant weaknesses identified

We have not identified any significant weakness with regards to the Council’s arrangements for ensuring value for money. We reported this as part of our audit report and have provided further details in our commentary on pages 6 to 8.

Value for money

Financial sustainability	
Description	Commentary on arrangements
<p>This relates to ensuring that the Council has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ How the Council sets its financial plans to ensure services can continue to be delivered; ▪ How financial performance is monitored and actions identified where it is behind plan; and ▪ How financial risks are identified and actions to manage risks implemented. 	<p>East Hampshire set a balanced Revenue budget for the financial year (which included a 2% increase in the current Council Tax charge) and achieved a small surplus on the General Fund of £284k. Savings of £977k were included within the budget for the year. These are reviewed and agreed by the Executive Board and Portfolio Holders. The budget set going forward to 23/24 also relies on savings of £2.8m as inflation impacts on the Council's operations. EHDC has also noted a reduction in the value of investment property of £13.5m in year.</p> <p>Despite the backdrop of uncertain funding from Central Government and inflationary impacts in the short term, East Hampshire have managed to set a largely balanced Medium Term Financial Strategy. Whilst reliant on savings, this is in line with the overall transformation plans at the Council, 'Shaping East Hampshire's Future', which has been reviewed by relevant stakeholders and Committees at regular stages.</p> <p>We found effective arrangements for the alignment of financial, workforce and operational plans. The Council's Quarterly Performance Report is designed to ensure workforce, performance and activity issues are captured and included within financial plans. This is also reflected in the Corporate Strategy.</p> <p>The Council has an adequate reporting framework in place. The financial performance of the Council is regularly reported to the Council and includes financial and non-financial KPIs. There is an Overview and Scrutiny committee that reviews financial decisions, the budget also is put before the Audit Committee.</p> <p>There are two highly scored financial risks of particular note in the Corporate Risk Register, with attention drawn to the expected downturn in the economy likely to impact on the return on the Council's commercial property portfolio, alongside the risk of contractors failing to deliver all or part of their contract. We have not identified any issues with the arrangements in place regarding monitoring and actions identified with regards to these risks in the current financial year.</p> <p>Financial plans are typically incremental, excepting the current transformational programme, adjusted based on historical variances and expected changes in consultation with budget holders and other stakeholders. Council revenues are highly predictable in normal times.</p>

Value for money

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Council's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ Processes for the identification and management of strategic risks; ▪ Decision making framework for assessing strategic decisions; ▪ Processes for ensuring compliance with laws and regulations; ▪ How controls in key areas are monitored to ensure they are working effectively. 	<p>We consider the Council to have effective processes in place to monitor and assess risk. Strategic risks are recorded and identified using the corporate risk register is overseen by quarterly reporting to full Council, with reports provided to the Audit Committee for assurance. Through our attendance at Audit Committees, we have observed effective challenge provided by Councillors. Our review of the risk register found this was sufficiently detailed to effectively manage key risks.</p> <p>East Hants and Havant Borough Council made the decision to terminate the shared management arrangement in the previous financial year. However, we do not believe this had a detrimental impact on EHDC in terms of governance as the structures and Committees remain in place and the turnover of key personnel has been comparatively low, with the Chief Executive and Chief Financial Officer remaining in post.</p> <p>We also note that key contracts, such as the Norse waste contract, have been re-negotiated successfully in the financial year from a shared arrangement with Havant to a direct joint venture arrangement, with no noticeable impact on service provision. The extraction from data management/computing arrangements is understood to provide additional challenges, but the governance and processes are in place for the financial year to plan for this and arrangements remain static for the audited year.</p> <p>The effectiveness of internal controls is monitored by the Audit Committee through reporting from Internal Audit, who have an agreed work plan and reports progress to each Audit Committee, with an annual report taken at the end of the year. This resource is supplemented via consideration of fraud by the Audit Committee and senior finance staff whilst preparing the financial statements.</p> <p>The Council has in place a staff code of conduct and whistleblowing policy. Specific guidance is in place for teams and managers via standards of behaviour for these roles. Overall compliance with legislation, laws & regulations is monitored through the Constitution Sub-Committee and the Standards Committee. A register of interest is in place together with a policy for gifts and hospitality with regular reporting of entries on the register taking place to the Audit Committee.</p> <p>Key strategic decisions are made via the Council's governance process. A scheme of delegation is in place which sets out where different decisions/approvals should take place. Major decisions require business cases to be approved through the relevant oversight group, such as the Overview and Scrutiny Committee as well as Cabinet.</p>

Value for money

Improving economy, efficiency and effectiveness

Description	Commentary on arrangements
<p>This relates to how the Council seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered; ▪ The use of benchmarking information to identify areas where services could be delivered more effectively; ▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and ▪ Management of partners and subcontractors. 	<p>The primary mechanism for budgetary planning in the Medium Term Financial Strategy (MTFS) which details the financials to support the Corporate Strategy.</p> <p>There is no formally documented external benchmarking that the Council undertakes, however the transformation programme currently underway ‘Shaping East Hampshire’s Future’ is fully focussed on costs and the three Es (economy, efficiency, effectiveness), designed to take a view on all current spending and change the approach where not efficient or effective.</p> <p>The Council has a performance management framework in place to set the structure of performance management across the Council. This details the format of reporting and outlines roles and responsibilities at each level. The main element of performance reporting is the Quarterly Performance report, which includes key operational performance indicators. This report highlights performance in different domains in line with the Council’s strategy and highlights key areas for improvement within each domain. For these areas further information is provided, such as trends, to help inform the Cabinet and provide the full context.</p> <p>The Council has several key local partnerships such as the 5Cs grouping, which helps the Council to realise efficiencies and adds to their risk management data inputs. Key stakeholders are increasingly involved in Council decisions, particularly in areas such as the s.106 spend. East Hampshire members sit on the Board of the local leisure grouping and other smaller groups such as the railway network and cyclists group also are involved in local decision making.</p> <p>Contract monitoring does take place, however there is limited evidence of performance penalties for subcontractors and providers of services. That said, a large proportion of subcontracting is through a small number of high value items, such as the Norse waste contract, so there are not a huge number to monitor. The leisure contracts are also one of the more significant items and East Hampshire sits on the Board for appropriate scrutiny on both sides.</p> <p>Further evidence of identification of areas where Council services can be delivered more efficiently can be seen in East Hampshire’s proposed move from Penns Place, where the Council undertook a review of the methods of working in the Council since the pandemic and identified an opportunity to move Council services to a smaller site already owned by the Council as an investment property and consider disposal or redevelopment of the original site, in line with its Transformation Programme and Corporate Strategy.</p>



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