





Private and Confidential September 2021

Dear Audit Committee Members

We are pleased to attach our final audit results report. This report summarises our final audit conclusion in relation to the audit of Hinckley and Bosworth Borough Council for 2019/20.

It provides an update to our preliminary audit results report issued 24 November 2020. Updates are in blue font to assist the reader.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

Yours faithfully

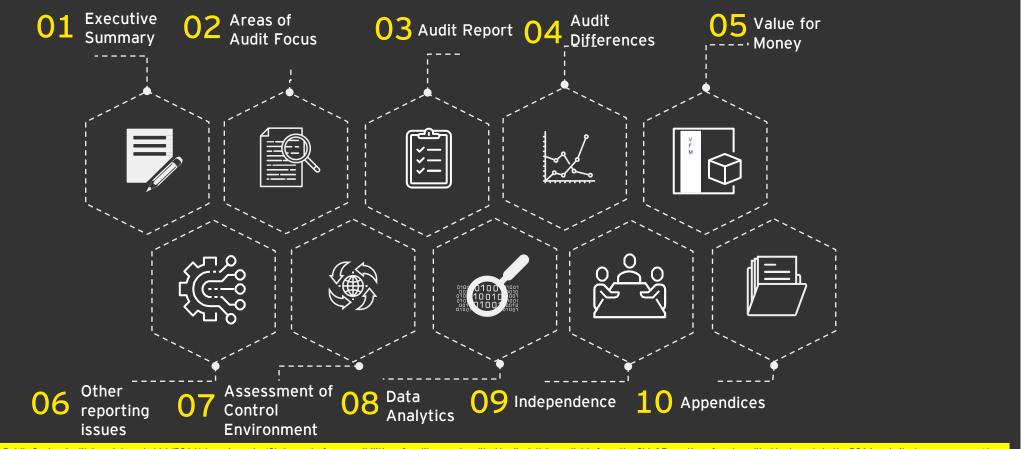
Helen Henshaw

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

## **Contents**



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (<a href="www.psaa.co.uk">www.psaa.co.uk</a>). This 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 (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.





### Scope update

In our audit planning report tabled at the 20 May 2020 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 to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

#### Changes to our risk assessment as a result of Covid-19

- Valuation of Property Plant and Equipment The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
- **Disclosures on Going Concern** Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- Events after the balance sheet date We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Local Authority.
- Adoption of IFRS16 The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

### Changes in materiality

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.1m, with performance materiality, at 75% of overall materiality, of £828k, and a threshold for reporting misstatements of £55k. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

We updated our planning materiality assessment using the draft accounts and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.072m (Audit Planning Report - £1.1m). This results in updated performance materiality, at 75% of overall materiality, of £804k, and an updated threshold for reporting misstatements of £54k



### Scope update

**Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- · Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 37.



### Status of the audit

We have substantially completed our audit of Hinckley and Bosworth Borough Council financial statements for the Year ended 31 st March 2020 and have performed the procedures outlined in our Audit planning report. Subject to the satisfactory completion of the outstanding matters set out in Appendix B, we expected to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3.

We expect to issue the audit certificate at the same time as the audit opinion

### **Audit differences**

There are unadjusted audit differences arising from our audit. These are immaterial individually and in aggregate, and are set out in section 4.

Management has made a number of adjustments to the draft financial statements based on our feedback and findings. The most significant of these are reported in section 4.

### **Objections**

We have received no objections to the 2019/20 accounts from members of the public.

### Areas of audit focus

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

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 and Standards Committee.

## Executive Summary

#### **Control observations**

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 fully substantive approach, we have therefore not tested the operation of 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 and which is unknown to you. However, we have set out some observations in section 7 of this report.

### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk:

Securing Financial Resilience: The Council's Medium Term Financial Strategy (MTFS) shows that there is a gap between funding and expenditure, requiring the Council to utilise its reserves to meet its planned expenditure.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

### Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We will report any matters arising to the Audit Committee.

We have no other matters to report.

### Independence

Please refer to Section 9 for our update on Independence.





## Significant risk

Risk of fraud in revenue and expenditure recognition -**Inappropriate** capitalisation of expenditure

#### 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.

As the Council is more focussed on its financial position over the medium term we do not consider there to be a heightened risk for the Council's standard income and expenditure streams except for the capitalisation of expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme.

### What judgements are we focused on?

The main judgement which we focus on in relation to this significant risk is the assessment undertaken to determine whether capitalised expenditure meets the requirements of the associated accounting standard.

### What did we do?

In order to address this risk we have carried out a range of procedures including:

- Reviewed the appropriateness of expenditure recognition and capitalisation accounting policies;
- Used our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statement, specifically those that move expenditure to PPE balance sheet general ledger codes; and
- Performed sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised.

#### What are our conclusions?

We tested a sample of additions to Property, Plant and Equipment in the year. No issues were noted in respect of inappropriate capitalisation of expenditure.

We have used our data analytics tools to examine journal entries moving expenditure from the comprehensive income and expenditure statement to fixed asset codes on the balance sheet.

Our audit work has not identified any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.



## 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) 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 did we do?

In order to address this risk we have carried out a range of procedures including:

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including:
  - testing of journal entries and other adjustments in the preparation of the financial statements:
  - assessing accounting estimates for evidence of management bias; and
  - evaluating the business rationale for significant unusual transactions.

### 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.

We did not identify any transactions during our audit which appeared unusual or outside of the Authority's normal course of business.

No issues were identified.



## Significant risk

Valuation and impairment of Property, Plant and Equipment

### What is the risk?

The fair value of Property, Plant and Equipment (PPE) represents a significant balances in the entity's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The Authority will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/ overstated. 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.

Many of the property valuations involve future yields within the calculation. Due to the impact of Covid 19 there is greater uncertainty around the future yields obtainable in relation to properties.

#### What judgements are we focused on?

We focused on the complex judgements provided by the specialist valuer in their determination of asset valuations.

### What did we do?

- Considered the work performed by the external valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation;
- Tested accounting entries have been correctly processed in the financial statements; and
- Engaged EY Real Estates team to perform a review of the valuer's estimation methods and to review the valuation of a sample of assets.

### What are our conclusions?

We considered the professional capabilities and experience of the valuer, no issues were noted.

We sample tested key asset information and no issues were noted.

We considered the annual cycle of valuations. No issues were noted.

Assets not subject to valuation 2019/20 were only those in categories which do not require revaluation. No issues were noted.

We considered economic lives and tested accounting entries had been posted correctly - no issues were noted.

We engaged EY Real Estates to perform a review of assets. We identified a number of assets which fell outside of EY Real Estate's acceptable range. The net impact was not material - PPE understated by £64k.

We identified one asset under construction (Ambion Court) which was incorrectly revalued in year. The impact was not material - PPE (AUC) understated by £237k.



### Other areas of audit focus



### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require extensive disclosures within the financial statements regarding membership of the Local Government Pension Scheme administered by Leicestershire County Council.

The information disclosed is based on the IAS 19 report issued to the Council by the actuaries to the County Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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.

At 31 March 2020 the net liability totals £43.5m.

Management obtained revised actuarial reports to reflect the recent McCloud remedy consultation which resulted in a revised liability figure of £35m (a reduction of £243k). This has been adjusted for in the final financial statements.

We have recently received an assurance letter from the auditors of the Leicestershire Pension Fund on the results of their procedures. This letter alerts us to the fact that the auditors of the Fund will be including an Emphasis of Matter in their audit opinion in respect of Material Uncertainty clauses included in a number of property fund valuation reports in which the Pension fund invests. Having undertaken procedures to follow up on this, there is no material impact for Hinckley and Bosworth Borough Council's financial statements.

We completed our procedures and no material issues were identified.

We identified minor errors, below our materiality threshold, in the pension fund figures:

- Benefits paid was understated by £186k (No net impact on pension liability)
- Return on pension assets was understated by £67k (Dr net pension liability £67k, Cr OCI £67k)



### Other areas of audit focus



### lational Non-Domestic Rates (NNDR) Appeals Provision

The Council calculates an NNDR (business rates) appeals provision in relation to appeals made by businesses which believe that the NNDR that they have paid in previous years was inflated due to an unreasonably high RV (Rateable value). The calculation involves a significant amount of estimation uncertainty and typically includes the use of an expert. As such, the value of the NNDR appeals provision is identified as an area which has an increased risk of material misstatement.

#### We have:

- Reviewed the methodology behind the calculation for the NNDR appeals provision, testing the assumptions used and the calculations applied;
- Assessed the data used in the calculation agreeing the values and attesting the completeness of appeals by agreeing to third party source information; and
- Enquired of management's specialist obtain an understanding of their input into their process, their qualifications and expertise.

We completed our procedures and no issues were identified.



## Other areas of audit focus



### Going Concern Disclosures

We consider the unpredictability of the current environment to give rise to a risk that the Council will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.

In order to address this risk we carried out the following procedures:

- · Obtained managements going concern assessment and review for any evidence of bias and consistency with the accounts;
- Reviewed the financial modelling and forecasts prepared by the Council. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to the date of 12 months after the signing date of the accounts and opinion;
- Ensured that an appropriate going concern disclosure has been made within the financial statements;
- Reviewed the Council's approach to identifying and disclosing events after the balance sheet date; and
- Considered the impact on our audit report and complied with EY consultation requirements.

We have completed our work in this area. Management's disclosures have been enhanced in relation to going concern. We have not identified any issues with the Council's use of the going concern basis of accounting.





## Draft audit report

#### Our opinion on the financial statements (Example)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HINCKLEY AND BOSWORTH BOROUGH COUNCIL

#### Opinion

We have audited the financial statements of Hinckley and Bosworth Borough Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Movement in Reserves Statement.
- ► Comprehensive Income and Expenditure Statement,
- ▶ Balance Sheet,
- ► Cash Flow Statement
- ▶ and the related notes 1 to 40.
- ► Housing Revenue Statement and the related notes 1 to 10
- ► Collection Fund and the related notes 11 to 15

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hinckley and Bosworth Borough Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- ► have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGNO1, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that Head of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

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



## Draft audit report

### Our opinion on the financial statements (Example)

#### Other information

The other information comprises the information included in the Audited Statement of Accounts and Annual Governance Statement 2019/20, other than the financial statements and our auditor's report thereon. The Head of Finance is responsible for the other information contained within the Audited Statement of Accounts and Annual Governance Statement 2019/20.

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

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

We have nothing to report in this regard.

### Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;

- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the vear ended 31 March 2020.

We have nothing to report in these respects

### Responsibility of the Head of Finance

As explained more fully in the Statement of the Head of Finance's Responsibilities set out on page 20, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



## Draft audit report

#### Our opinion on the financial statements (Example)

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

### Auditor's responsibilities for the audit of the financial statements

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

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

► We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are: O Local Government Act 1972,

O Local Government and Housing Act 1989 (England and Wales)

O Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992)

O Local Government Act 2003,

O The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020.

O The Local Government Finance Act 2012

O The Local Audit and Accountability Act 2014, and

O The Accounts and Audit Regulations 2015.

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

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



## Draft audit report

### Our opinion on the financial statements (Example)

- ▶ We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.
- ▶ To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- ► To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether the Hinckley and Bosworth Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness.

The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Hinckley and Bosworth Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Hinckley and Bosworth Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

#### Certificate

We certify that we have completed the audit of the accounts of Hinckley and Bosworth Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



## Draft audit report

### Our opinion on the financial statements (Example)

### Use of our report

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

Helen Henshaw (Key Audit Partner) Ernst & Young LLP (Local Auditor) Birmingham 09 September 2021





### Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

We highlight the following misstatements greater than £54k which have been corrected by management that were identified during the course of our audit:

#### Corrected misstatements:

- Direct debit taken on 1 April 2020 incorrectly recorded within 2019/20 financial year. Debtors understated by £524k, Cash overstated by £524k
- Payment made to inland revenue on 22 April 2020 incorrectly recorded within 2019/20 financial year. Creditors understated by £242k, Cash understated by £242k.
- Adjustment to net pension liability due to acquisition of updated actuary report to include impact of McCloud judgement. Adjustment: £243k reduction to net pension liability, £243k uplift to Other Comprehensive Income.
- Section 106 creditor incorrectly recognised. Adjustment: £86k reduction to debtors, £86k reduction to payables.

#### Corrected disclosure items:

A number of disclosure errors were identified and are being amended by management:

- Amendment to future lease payments in respect of Hinckley Hub
- Amendment to AGS to include impacts of Covid-19
- Amendment to AGS conclusion
- Amendment to include prior year external audit scale fee variation
- Amendment to provisions disclosure in relation to classification of increase/decrease and amounts used in year
- Amendment to accounting policies disclosure in relation to updated NNDR appeals provision estimate methodology applied.
- Amendments to the narrative report to ensure figures are consistent with the accounts

Uncorrected misstatements are shown on the following page

### 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 and Standards Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2020 (£000)	Effect on the current period:	B	Balance Sheet (Decrease)/Increase		
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Equity Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Errors					
Known differences:					
<ul> <li>Pension Fund benefits paid overstated</li> </ul>					186,000 (Pen. Ass)
					(186,000) (Pen. Lia)
MRP - Old regime debt calculation incorrect. Cumulative MRP  undershares, Congress Fund / Conject Adjustment Account.				117,000 (Gen Fund)	
undercharge. General Fund / Capital Adjustment Account				(117,000) (CAA)	
<ul> <li>Pension Fund variance between forecast and actual asset return</li> </ul>	(67,000) (OCI*)				67,000
<ul> <li>Ambion Court (AUC) incorrectly included as part of PPE Valuations</li> </ul>	(237,000) (I+E)		237,000		
Projected differences:					
<ul> <li>Assurance over the existence of debtors could not be verified.</li> </ul>	236,000 (I+E)	(236,000)			
Judgemental differences:					
<ul> <li>Variances in PPE Valuation - outside of EYRE acceptable range</li> </ul>	45,000 (OCI*) (109,000) (I+E)		64,000		
Balance sheet totals		(236,000)	301,000	0	67,000
Income effect of uncorrected misstatements	(22,000) (OCI*) (110,000) (I+E)				

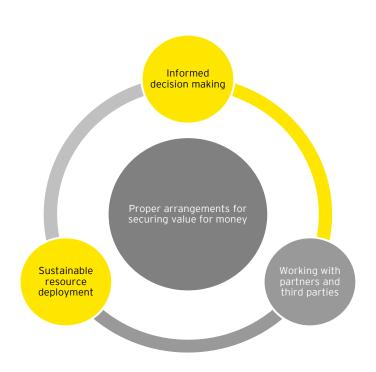
\*Note: Impact is on OCI (Reduction to Revaluation Reserve)

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2020



#### V F M

### Value for Money



### **Background**

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

### Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

### **Overall conclusion**

We identified one significant risk around these arrangements. The table following presents our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We have identified no issues in the Council's arrangements for securing value for money



## **Value for Money Value for Money**

# Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

### What is the significant value for money risk?

#### Securing financial resilience

In common with other Local Government entities, the Authority is facing significant financial pressures in the medium term.

The Authority is forecast to have a General Fund Balance of £1.65m at 31/03/2020.

The Medium Term Financial Strategy (MTFS) forecasts deficits over the next three years which would leave the Authority with adequate reserves at the end of the 2022/23 period. However, the sensitivity analysis within the MTFS shows that with reductions in income due to the phasing out of the New Homes Bonus and the resetting of the NNDR baseline would provide budget deficits as follows:

- 2020/21 £123k
- 2021/22 -£46k (surplus)
- 2022/23 £326k

This decreases the General Fund Reserve to £1.25m by the end of the 2022/23 period, which is below the level of £1.63m considered acceptable by the Authority going into 2022/23.

Given the uncertainty of the funding settlement post 2020/21 and the financial pressures set out above, we have considered this to be a significant area of focus in forming our value for money conclusion.

### What arrangements did the risk affect?

#### Deploy resources in a sustainable manner.

Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions

### What are our findings?

We have received correspondence from a member of the public on 11/11/2020, expressing concerns over the Council's arrangements in respect of the Council's arrangements to secure economy, efficiency and effectiveness on its use of resources.

Under the Code of Audit Practice (paragraph 5.3) issued by the National Audit Office, auditors have an obligation to consider information received. Auditors are required to consider whether the matter or information provided needs investigation and action under the additional powers and duties set out at paragraph 5.1 of the Code or whether it can be considered more effectively within planned work programmes.

We have followed up the concerns expressed. We have not identified any additional significant risks to the Council's arrangements for securing economy, efficiency and effectiveness in the 2019-20 year under audit in relation to this.

Whilst the MTFS presents some financial challenges for the Authority over the medium term, Hinckley has a good track record of meeting and achieving savings. Our value for money conclusion is unqualified.



## 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 2019-20 Statement of Accounts for Hinckley and Bosworth Borough Council 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 2019-20 Statement of Accounts for Hinckley and Bosworth Borough Council and published with the financial statements was consistent with the audited financial statements (pending audit adjustments to be made by management).

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 are currently concluding our work in this area and will report any matters arising to the Audit Committee.

## **Other reporting issues**

## Other reporting issues

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the [Authority]'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;
- · Consideration of laws and regulations; and
- Group audits

No significant findings have been identified in relation to any of the above matters





### Assessment of Control Environment

### Financial controls

It is the responsibility of the Authority 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 Authority 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 fully substantive approach, we have therefore not tested the operation of 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 considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

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. However, wish to report the following area where improvements could be made to the operation or design of controls.

### Status of previous year's recommendations

Description	Update
No issues identified.	n/a

### Current year recommendations

Description	Management's response
We noted that the revaluation reserve per the financial statements does not agree to the sum of individual fixed asset revaluation reserves per the fixed asset register. The value per the financial statements is £207k greater than as per the fixed asset register.	Management are working to identify the cause of the error. The variance is not material to the financial statements. Management are looking to make the amendment within the 2020/21 financial year.





### Use of Data Analytics in the Audit

### **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 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, 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.

### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.





### **Journal Entry Data Insights**

The graphic outlined below summarises the journal population for 2019/20. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

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

#### Helix - GLASS: Journal Entry Data Insights - 20 Hinckley and Bosworth Borough Council - P1 to P13 - 31/03/2020 Manual v System by Volume Facts and Figures Manual v System by Value Top Five Preparers Number of Journals Posted: Civica User Manual (21,2%) 10.687 11,782 (Demo) 266 Average Number of Journals Posted per Day: System (78.8%) vstem (91.7% 36 224 Top Five Activity Accounts **Bottom Five Activity Accounts** Average Number of Lines per Journal EB. Receivables 141 C. Cash and 24 short\_term de.. suppliers/vend.. EM. Receivable/Pa... 137 ZCO. Other N. Trade 4.000 5.000 6.000 7.000 payables L. Intangible VD. Bottom Five Preparers Operational Efficiences Administrative DA. Investment and Other Ope.. and treasury a... UB. Other Manual Journals Posted at weekend: Q. Non\_current 3,660 operating 1 loans and borr. income 4,000 6,000 Manual journals where gross amount is Days of the Week < £5: 4 2.5k 970.0M 2.1k 800.0M 1.7k 640.0M Journal lines with zero value: 1.2k 480.0M 830.0 320.0M 400.0 160.0M 0.0 0.0 Sat Criteria Sample Statement of Responsibility 283,733 of 283,733 rows 0 marked 46 columns



# Journal Entry Testing

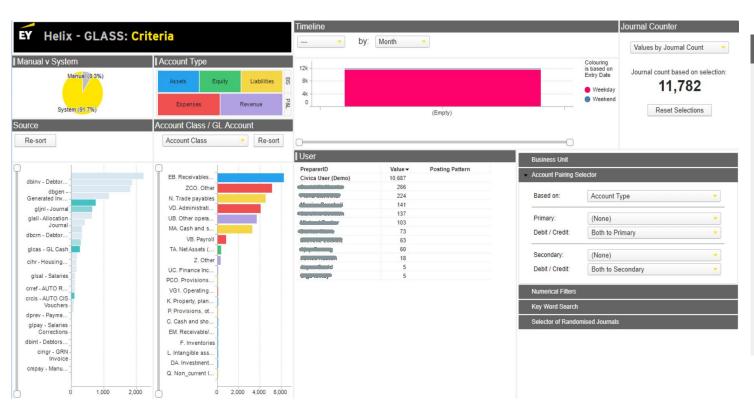
### What is the risk?

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

Journal entry data criteria - 31 March 2020

### What judgements are we focused on?

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



### What did we do?

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

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

#### What are our conclusions?

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





## Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 1 May 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 24 November 2020.

We confirm that to date we have not undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have not undertaken non-audit work.

Description	Final Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee – Code work – Scale fee	38,046	38,046
Audit Fee - Code work - Scale fee variation*	11,185	12,600
Total Audit Fee - Code work	49,231	50,646
Total non-audit services	5,000	5,000

<sup>\*</sup> In our Audit Planning Report we identified and reported areas where audit work will be required over and above the level of the scale fee previously set. Subsequent to the issuance of our Audit Planning Report, as a result of the impact of the Covid-19 pandemic, there has also been additional work required in respect of our consideration of the going concern basis of accounting.

### Additional costs are as follows:

Audit of land and building valuation including use of specialists	4,229
Covid 19 - Going Concern and consultation	3,965
Covid 19 - Impact on risk assessment	577
Covid 19 - Additional time incurred in performing the audit remotely	2,414
Total Scale Fee Variation	11,185

We will discuss these additional costs with management. All scale fee variations are subject to approval from PSAA Ltd.



# Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2019 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 previous page sets out a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed have been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.



# New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

## Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services
  - Remuneration advisory services
  - Internal audit services
  - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Ethics, Transparency and Audit Panel where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Ethics, Transparency and Audit Panel details of any breaches of the Ethical Standard and any actions taken by the firm to address any
  threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence
  standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit
  report and not to its network. This is subject to clarification with the FRC.

## **Next Steps**

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.



# Other communications

## EY Transparency Report 2020

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

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

https://www.ey.com/en\_uk/who-we-are/transparency-report-2020





# Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report dated 1 May 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report dated 1 May 2020
Significant findings from the audit	<ul> <li>Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>Significant difficulties, if any, encountered during the audit</li> <li>Significant matters, if any, arising from the audit that were discussed with management</li> <li>Written representations that we are seeking</li> <li>Expected modifications to the audit report</li> <li>Other matters if any, significant to the oversight of the financial reporting process</li> <li>Findings and issues regarding the opening balance on initial audits</li> </ul>	Audit results report



		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:  ► Whether the events or conditions constitute a material uncertainty  ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements  ► The adequacy of related disclosures in the financial statements	Audit results report
Misstatements	<ul> <li>Uncorrected misstatements and their effect on our audit opinion</li> <li>The effect of uncorrected misstatements related to prior periods</li> <li>A request that any uncorrected misstatement be corrected</li> <li>Material misstatements corrected by management</li> </ul>	Audit results report
Subsequent events	► Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	
Fraud	<ul> <li>Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:         <ul> <li>Management;</li> <li>Employees who have significant roles in internal control; or</li> <li>Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Audit results report



		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:  Non-disclosure by management  Inappropriate authorisation and approval of transactions  Disagreement over disclosures  Non-compliance with laws and regulations  Difficulty in identifying the party that ultimately controls the Authority	Audit results report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.  Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:  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  Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report dated 1 May 2020 and Audit results report



		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul> <li>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</li> <li>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</li> </ul>	We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	► Significant deficiencies in internal controls identified during the audit.	Audit results report



		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	► Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	► Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	<ul> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit planning report dated 1 May 2020 Audit results report



# **Outstanding matters**

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

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed management representation letter	Management and Audit and Standards Committee
Whole of Government Accounts return to NAO	Completion of required assurance return	EY
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management



# Draft Management representation letter

## **Management Rep Letter**

[To be prepared on the entity's letterhead] [Date]

Helen Henshaw Ernst & Young LLP 1 Colmore Circus Queensway Birmingham B4 6AJ

This letter of representations is provided in connection with your audit of the financial statements of Hinckley and Bosworth Borough Council ("the Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Hinckley and Bosworth Borough Council as of 31 March 2020 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 2019/20.

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 2019/20.
- 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 2019/20, 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 2019/20, 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.
- 5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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

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



# Draft Management representation letter (Continued)

### Management Rep Letter

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

#### C. Information Provided and Completeness of Information and Transactions

- 1. We have provided you with:
- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- · Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to
  obtain audit evidence.
- 2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
- 3. We have made available to you all minutes of the meetings of the Full Council, Cabinet 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: 21 October 2020.
- 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year-end. These transactions have been appropriately accounted for and disclosed in the financial statements.
- 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 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 noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From 30 January 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

#### D. Liabilities and Contingencies

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

#### E. Subsequent Events

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

#### F. Other information

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

#### G. Going Concern

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



# Draft Management representation letter (Continued)

## **Management Rep Letter**

### H. Ownership of Assets

- 1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral, other than those that are disclosed in Note [X] to the financial statements. All assets to which the Council has satisfactory title appear in the balance sheet.
- 2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
- 3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note [X] to the financial statements, we have no other line of credit arrangements.
- 4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

#### I. Reserves

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

#### J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of noncurrent assets 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.

#### K. Estimates

Valuation of Pension Asset / Liabilities, Property, Plant and Equipment, and NDR Appeals Provision Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

- 2. We confirm that the significant assumptions used in making the estimated valuations of Pension Asset/Liabilities, Property, Plant and Equipment, and NDR Appeals Provision appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
- 3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic, and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
- 4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

#### L. Retirement benefits

Yours faithfully,

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.

Ashley Wilson (Head of Finance)

Councillor David Cope (Chairman of the Audit Committee)



# Accounting and regulatory update

## Future accounting developments

Since the date of our last report to the Audit Committee, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures		Impact on HBBC
IFRS 16	The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021 The Council will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. Update: IFRS 16 adoption has been further deferred to at least 1 April 2022	L.	<ul> <li>Hinckley and Bosworth Borough Council will need to ensure that all lease arrangements entered into are identified and quantified (including for the comparative period) prior to the new implementation date</li> <li>Consider whether appropriate systems and processes are in place to embed the requirements of the new accounting standard going forward.</li> </ul>

## Regulatory update

Since the date of our last report to the Ethics, Transparency and Audit Panel, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on HBBC
Code of Audit Practice 2020	► The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	<ul> <li>The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.</li> <li>Further updates will be provided when possible.</li> </ul>



## Reflections from the Redmond Review

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8<sup>th</sup> September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

## Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.





# Reflections from the Redmond Review (continued)

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

## Quality of financial reporting and external audit

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

## Reforming the public sector financial reporting and external audit ecosystem

- Establishing the Office for Local Audit Regulation (OLAR), which provides a "system leader" and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

## Multidisciplinary audit firm model

• The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

## Safeguarding professional accounting and auditing standards

• The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

## EY | Assurance | Tax | Transactions | Advisory

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited. All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com