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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EASTLEIGH BOROUGH COUNCIL**

### **Disclaimer of Opinion**

We were engaged to audit the financial statements of Eastleigh Borough Council ('the Council') for the year ended 31 March 2024. The financial statements comprise the:

- Council Movement in Reserves Statement,
- Council Comprehensive Income and Expenditure Statement,
- Council Balance Sheet,
- Council Cash Flow Statement,
- the related notes 1 to 54 including material accounting policy information, and
- Collection Fund and the related notes 1 to 3.

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 2023/24.

We do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### **Basis for disclaimer of opinion**

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 required any outstanding accountability statements for years ended 31 March 2015 to 31 March 2023 to be approved not later than 13 December 2024 and the accountability statements for the year ended 31 March 2024 to be approved not later than 28 February 2025 ('the backstop date').

The audits of the financial statements for the years ended 31 March 2022 and 31 March 2023 for Eastleigh Borough Council were not completed for the reasons set out in the disclaimers of opinion on those financial statements dated 5 December 2024.

Our planned audit work in the current year was focused on transactions in the year and the current year balance sheet, however as set out in our 'report on the Council's proper arrangements for securing economy, efficiency and effectiveness in the use of resources' section of this audit report, our ability to perform the audit was impacted by the Council's commercial investment which increased the complexity of the financial statements and the finance team's ability to produce and support materially accurate 2023/24 financial statements.

This, combined with the backstop date and the wider requirements of the local audit system reset, meant we were unable to complete our detailed audit procedures on creditors (23/24 £20.3m, 22/23 £14.5m), capital grants receipts in advance (23/24 £19.4m, 22/23 £19.7m), in-year net cost of services expenditure (23/24 £89.3m, 22/23 £90.7m), in-year net cost of services income (23/24 £66.2m, 22/23 £63.1m) and operating lease disclosures as lessee and lessor (23/24 lessee £8.6m, 22/23 lessee £1.2m, 23/24 lessor £142.7m, 22/23 lessor £158.1m), and the Cash Flow Statement.

As a result of the disclaimers of opinion in the prior years and the scope of our audit work which was impacted by the backstop date, we also do not have sufficient appropriate audit evidence over the following:

- in the Council Balance Sheet and accompanying notes: the opening balances, closing reserves position and the valuation of property assets held at valuation included in 'other land and buildings' and 'inventories' that were not revalued in year

- in the Council Comprehensive Income and Expenditure Statement and accompanying notes: comparatives and income and expenditure transactions that are impacted by the opening balances shown in the prior year balance sheet
- in the Council Cash Flow Statement and accompanying notes: opening balances, comparatives and in-year cash flow movements that are calculated as a movement between the opening and closing balance sheet
- in the Collection Fund and accompanying notes: opening balances, comparatives and in-year movements that are calculated as a movement between the opening and closing balance

In addition, information was received during the course of the audit that indicated the potential for non-compliance with laws and regulations. Due to the imposed backstop date, we were unable to perform sufficient further audit work to determine whether this matter has any impact on the financial statements.

Therefore, we are disclaiming our opinion on the financial statements.

### **Matters on which we report by exception**

Notwithstanding our disclaimer of opinion on the financial statements we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit, performed subject to the pervasive limitation described above, or our knowledge of the Council.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- 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 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

### **Report on the Council's proper arrangements for securing economy, efficiency and effectiveness in the use of resources**

We report to you if we are not satisfied that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024.

On the basis of our work, having regard to the Code of Audit Practice 2024 and the guidance issued by the Comptroller and Auditor General in November 2024, we have identified the following significant weaknesses in the Council's arrangements for the year ended 31 March 2024.

#### **Significant weaknesses in arrangements**

We have identified three significant weaknesses in arrangements for the year ended 31 March 2024. These are:

1. Weaknesses relating to the capacity and expertise within the finance function to identify, assess and manage risks to the Council's financial sustainability due to the complexity of the Council's commercial property and housing development activities and associated level and nature of borrowing.

#### Weakness identified

There is a need for further capacity and expertise in the Council's finance team to support its increasingly complex financial planning and the significant pressure on the Council's finances over the medium term.

#### The evidence on which our view is based

The additional accounting, financial management and risk management complexities relative to the majority of lower tier local government bodies brought about by the commercial property and housing development activities of the Council, and associated level of external borrowing, a significant proportion of which is held short-term. Changes in the wider UK economy at the reporting date, and specifically increased inflation, increased interest rates, and lower demand and falling house prices put further pressure on the Council's finances as a result of its housing development activity.

#### The impact on the Council

The level of financial risk faced by the Council may result in difficulties in obtaining affordable short-term finance or reductions in revenue and capital spending plans. Insufficient appropriate capability and capacity within the finance function increases the risk that identification, assessment and management of financial sustainability risks is insufficient.

#### Action required by the Council

The Council should increase capacity within the finance function and other areas to better support its increasingly complex financial planning arrangements and scale of its commercial activity, particularly in relation to housing development and the need for strategic treasury management in respect of related borrowing. This should allow it to more quickly assess and articulate the impact of current and expected changes in market conditions on its financial plans and risks, take mitigating actions as necessary and report to members and other stakeholders in a greater level of detail. Increased capacity within finance and other areas of the Council will also be necessary to support the Council's proposal to re-establish and then properly maintain a Housing Revenue Account.

The level of financial risk faced by the Council and the related need for further capacity in the Council's finance team to support its increasingly complex financial planning is evidence of significant weaknesses in proper arrangements for how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them.

## *2. Governance and procurement risks associated with the One Horton Heath development.*

#### Weakness identified

During the course of the audit, instances of potential non-compliance with laws and regulations and other weaknesses in internal control relating to the Council's One Horton Heath Housing development were brought to our attention. The matters related specifically to:

- Weaknesses in internal control over payments made to contractors.
- Breaches of contract standing orders and potential wider non-compliance with procurement law.
- Wider weaknesses in governance arrangements for the One Horton Heath development.

#### The evidence on which our view is based

An investigation into the matters by Internal Audit and further consideration of that investigation by EY specialists found the matters reported to be partially valid.

#### The impact on the Council

Weaknesses exist in the internal control and governance of the One Horton Heath scheme, which exposes the Council to risk of financial loss or fraud. Those weaknesses are potentially more pervasive across the Council.

#### Action required by the Council

The Council should:

- Ensure it has a framework of necessary policies, procedures and training in place to identify and address the risk of fraud and carry out investigations to the standard required to enable enforcement if required.
- Broaden the scope of investigative work in relation to the potential non-compliance with laws and regulations and other weaknesses in internal control to more fully consider the potential impact of both the allegations and findings to date on decision making and governance for both the One Horton Heath development specifically, and the Council more generally.

Subsequent to the reporting period Internal Audit did broaden the scope of investigative work.

This is evidence of significant weaknesses in arrangements for:

- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.
- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.
- Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

3. *Capacity and expertise within the Internal Audit service, to respond to wide ranging investigations into potential non-compliance with laws and weaknesses in internal control*

Weakness identified

During 2023, potential non-compliance with laws and regulations and other weaknesses in internal control relating to the Council's One Horton Heath Housing development were identified by management and brought to our attention. A review by EY specialists of the initial Internal Audit investigation into the matters identified highlighted weaknesses in the scope of Internal Audit work to investigate the allegations, the methodology applied and the depth and validity of evidence supporting findings and conclusions.

The evidence on which our view is based

The review by EY specialists of the Internal Audit investigation. A Capital Review of the Council commissioned by the Department for Levelling-Up, Housing and Communities and undertaken by the Chartered Institute of Finance and Accountancy also recommended strengthening Internal Audit through enlarging the team or having specialised reviews.

The impact on the Council

The Internal Audit function does not have the required expertise and capacity to comprehensively and promptly investigate and report on the potential non-compliance with laws and regulations and other weaknesses in internal control. The Internal Audit function does not have sufficient capacity and expertise to provide assurance over governance and internal control arrangements for the Council's wider commercial activity.

Action required by the Council

The Council should:

- Ensure that Internal Audit has the required expertise and capacity to comprehensively and promptly investigate and report on potential non-compliance with laws and regulations and other weaknesses in internal control, and that findings are underpinned by detailed testing. Where investigative work undertaken suggests wider potential weaknesses in governance, internal control, non-compliance with law and regulation or material fraud the Council should ensure that the scope of work is expanded to properly address and provide assurance in relation to this.
- Ensure that Internal Audit has the required expertise and capacity to provide assurance over governance and internal control arrangements for the Council's wider commercial activity, and in particular the One Horton Heath development given its scale and financial significance to the Council.

This is evidence of significant weaknesses in arrangements for how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

Subsequent to the reporting period, the Council has formally agreed joint working arrangements for internal audit with the Southern Internal Audit Partnership from 1 April 2025 for a period of five years.

## **Responsibility of the Chief Financial Officer**

As explained more fully in the '*Statement of the Responsibilities for the Statement of Accounts*' set out on page 11, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, for being satisfied that they give a true and fair view and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council'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 Council either intends to cease operations, or has no realistic alternative but to do so.

The Council 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 responsibility is to conduct an audit of the Council's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Council 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 Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## **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 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether the Eastleigh 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 the Eastleigh Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024.

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 the Eastleigh 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 (as amended) to satisfy ourselves that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance certificate in respect of the Whole of Government Accounts consolidation pack and the NAO, as group auditor, has confirmed that no further assurances will be required from us as component auditors of Eastleigh Borough Council.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

**Use of our report**

This report is made solely to the members of Eastleigh Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 85 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 Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

MARK HODGSON  
ERNST & YOUNG LLP  
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Date: 26<sup>th</sup> February 2025

**Mark Hodgson (Key Audit Partner)**  
Ernst & Young LLP (Local Auditor)  
Cambridge