

# FAREHAM

BOROUGH COUNCIL

## AGENDA

### AUDIT AND GOVERNANCE COMMITTEE

**Date:** Monday, 11 March 2024

**Time:** 6.00 pm

**Venue:** Collingwood Room - Civic Offices

**Members:**

Councillor Ms F Burgess (Chairman)

Councillor R Bird (Vice-Chairman)

Councillors Mrs T L Ellis

H P Davis

N R Gregory

D J Hamilton

S D Martin

**Deputies:** Ms C Bainbridge

M R Daniells



**1. Apologies**

**2. Minutes (Pages 5 - 8)**

To confirm as a correct record the Minutes of the Audit and Governance Committee meeting held on the 27 November 2023.

**3. Chairman's Announcements**

**4. Declarations of Interest and Disclosures of Advice or Directions**

To receive any declarations of interest from members in accordance with Standing Orders and the Council's Code of Conduct.

**5. Deputations**

To receive any deputations of which notice has been lodged.

**6. External Audit - Certification Report (Pages 9 - 12)**

To consider a report by the Assistant Director (Finance & ICT) on the findings from the 2021/22 housing benefits subsidy work carried out by the External Auditors (Ernst and Young LLP).

**7. External Audit - Value for Money Report (Pages 13 - 40)**

To consider a report by the Chief Executive Officer on the External Auditor's Value for Money Interim Report, summarising the findings from the work completed to date on the 2022/23 accounts.

**8. External Audit - Audit Update (Pages 41 - 72)**

To receive a report from the Chief Executive Officer on the External Auditor's Audit Update Report, summarising the proposals for the delivery of the audits of the 2022/23 and 2023/24 accounts.

**9. Member Training Programme (Pages 73 - 82)**

To receive a report from the Assistant Director (Democracy) providing a review of the Member Training Programme.

**10. Treasury Management Strategy (Pages 83 - 106)**

To consider a report by the Chief Executive Officer on the latest Treasury Management Strategy.

**11. Annual Review of the Audit and Governance Committee (Pages 107 - 114)**

To consider the annual report by the Assistant Director (Finance and ICT) on the work of the Audit and Governance Committee during 2023/24.

**12. Monitoring Officer Report (Pages 115 - 124)**

To consider a report by the Monitoring Officer on items which require reporting but do not justify a full report to be brought to the Committee for consideration.

**13. Risk Management Monitoring Report (Pages 125 - 138)**

To receive a report by the Assistant Director (Finance & ICT) on the Risk Management Monitoring, providing evidence that the risk management policy is effective.

**14. Head of Internal Audits Quarterly Report and Annual Plan (Pages 139 - 164)**

To consider a report by the Assistant Director (Finance & ICT) on the internal audit work since the last meeting.



A WANNELL  
Chief Executive Officer  
Civic Offices  
[www.fareham.gov.uk](http://www.fareham.gov.uk)  
12 March 2024

**For further information please contact:  
Democratic Services, Civic Offices, Fareham, PO16 7AZ  
Tel:01329 236100  
[democraticservices@fareham.gov.uk](mailto:democraticservices@fareham.gov.uk)**





# FAREHAM

BOROUGH COUNCIL

## Minutes of the Audit and Governance Committee (to be confirmed at the next meeting)

**Date:** Monday, 27 November 2023

**Venue:** Collingwood Room - Civic Offices

**PRESENT:**

**Councillor** Ms F Burgess (Chairman)

**Councillor** R Bird (Vice-Chairman)

**Councillors:** Mrs T L Ellis, N R Gregory, D J Hamilton and S D Martin

**Also  
Present:**



**1. APOLOGIES**

An apology of absence was received from Councillor H P Davis.

**2. MINUTES**

The Chairman addressed the Committee to confirm that the Pension Scheme training that was requested by Members at the last meeting had taken place prior to this meeting. The Chairman extended thanks to Neil Wood, Finance Manager for delivering a very useful and informative training session.

RESOLVED that the Minutes of the Audit and Governance Committee meeting held on 25 September 2023 be confirmed and signed as a correct record.

**3. CHAIRMAN'S ANNOUNCEMENTS**

The Chairman made the following announcement –

Members may be aware that we have an overdue report covering the external certification work on the benefits subsidy claim for 2021/22.

Members may remember that Ernst and Young LLP have stepped in to do this work when KPMG pulled out of the contract and we received no interest from firms in 2 rounds of procurement.

The value of the subsidy claim for 2021/22 is approximately £13.5M. I have been given assurance that the external certification work is now mainly complete and we have received a draft report with the initial findings which are not significant. However, the full process is currently undergoing EY's internal management review process and so cannot be relied upon at this point in time.

Ernst and Young LLP have also agreed to carry out the work on the benefits subsidy claim for 2022/23 and this work, is expected to start shortly.

**4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS**

There were no declarations of interest made at this meeting.

**5. DEPUTATIONS**

No deputations were received at this meeting.

**6. EXTERNAL AUDIT UPDATE**

The Committee received a verbal update from Ben Lazarus, the Council's new account manager at Ernst & Young LLP (EY), on the discussions that are on-going with regards to completing both the 2022/23 and 2023/24 audits.

With the external audit sector in a transition phase, the update provided assurances to Members that the Council is in a good place compared to other

local authorities, as the 2021/22 audit is now complete and some work has started on the 2022/23 audit. That said, the auditors are still waiting for central Government to set out clear direction on how these audits are to be delivered, which gives a challenge for EY to know how to focus their resources. Ben explained that the strong relationship with the Council Officers is very much appreciated, with discussions taking place with management to plan for the various scenarios for completing the audits. It is hoped that this planning, will put the Council in a good position once Ministers provide confirmation of a way forward.

Members commented that although reassured by the information provided, they felt it important for the 2022/23 audit to be completed, in order to understand where the Council is, particularly with regards to fraud risks and value for money.

RESOLVED that the Audit and Governance Committee note the contents of the verbal update.

## **7. TREASURY MANAGEMENT STRATEGY**

The Committee received a report from the Finance Manager on the Treasury Management Strategy which sets out the mid-year review of the treasury management activity up to the 30 September 2023.

Members of the Committee asked questions to gain a greater understanding of the Treasury Management Strategy. The main topic of interest for Members is the effectiveness of the advice and information provided by Arlingclose, the Council's treasury management advisors. Officers confirmed that they have no concerns with the Arlingclose, reassuring Members that the contract is up for renewal so will be reviewed shortly to ensure the Council is getting the best service and value for money possible.

RESOLVED that the Audit and Governance Committee: -

- a) reviews the contents of the report; and
- b) provide comments in terms of the effectiveness of the treasury management strategy.

## **8. HEAD OF INTERNAL AUDITS QUARTERLY REPORT**

The Committee received the latest quarterly report from the Head of Finance and Audit on the work of the Internal Audit team. Members of the Committee asked questions about the report with particular interest in the scope and findings from the home working review.

RESOLVED that the Audit and Governance Committee notes the progress and findings from the Internal Audit Work.

## **9. MONITORING OFFICER REPORT**

The Committee received the Monitoring Officer Report from the Monitoring Officer. On this occasion the report included an update to the Deputation

Scheme, one of the Council's Financial Regulations, and the Anti- Fraud and Corruption Policy, all of which form part of the Constitution. The report also gave an update on Member Training for the next municipal year as well as the usual review of the Committee's work programme.

Members discussed various areas of the report, in particular focus was given to the Anti-Fraud and Corruption Policy and the details regarding Cyber Fraud with cyber-attacks evolving all the time. This is a key focus for the Council to ensure work is carried out to combat these threats, which includes the use of a dedicated Cybersecurity Officer.

RESOLVED that the Audit and Governance Committee: -

- a) notes the contents of Part One of the report;
- b) passed comment on the new Anti-Fraud and Corruption Policy, at Appendix B, for endorsement by Council;
- c) passed comment on the proposed revision to Financial Regulation 13.5 (Disposal of Assets), at Appendix C, for endorsement by Council; and
- d) approved the change to the deputation scheme, at Appendix D, for endorsement by Council.

(The meeting started at 6.00 pm  
and ended at 6.55 pm).

..... Chairman

..... Date

# FAREHAM

## BOROUGH COUNCIL

### **Report to Audit and Governance Committee**

**Date:** 11 March 2024

**Report of:** Assistant Director (Finance and ICT)

**Subject:** EXTERNAL AUDIT - CERTIFICATION REPORT

#### **SUMMARY**

This report presents the findings from the Housing Benefit Subsidy Certification work carried out by External Auditors (EY LLP) in respect of 2021/22.

The amount of subsidy claimed by Fareham Borough Council for 2021/22 was £13,590,502. At the end of assurance process detailed in the report the Reporting Accountant determined there were no exceptions or errors to report and the amount claimed was correct.

#### **RECOMMENDATION**

It is recommended that the Audit and Governance Committee: -

- a) consider the findings of the Annual Certification Report 2021/22 submitted to the Department for Works and Pensions by the Council's external auditors; and
- b) comment on the findings as appropriate.

## **INTRODUCTION**

1. Housing Benefit is a national social security benefit administered by Local Authorities on behalf of the Department for Works and Pensions (DWP). The DWP reimburse authorities for the cost of administering Housing Benefit through a system of subsidy payments, based on the subsidy claims submitted to the DWP by the local authorities.
2. The DWP require appropriately qualified Reporting Accountants (RA) to audit the subsidy claim and issue them with a report about the financial and legal probity of each local authority's Housing Benefit Service. The current RA appointed to carry out this work for the Council is Ernst and Young LLP.
3. The RA is required to perform specific tests determined by the DWP on a defined sample basis as set out in the Housing Benefit Assurance Process reporting framework. The Council's benefits team assist with this testing.
4. Testing of cases is carried out on an initial sample of cases of benefit type across the entire caseload. More extensive testing is undertaken if the initial testing identifies errors in the calculation of benefit or because of errors that have been identified in the audit of previous years' claims.

## **2021/22 HOUSING BENEFIT SUBSIDY CLAIM**

5. The amount of subsidy claimed by Fareham Borough Council for 2021/22 was £13,590,502. At the end of assurance process detailed above the Reporting Accountant determined there were no exceptions or errors to report and the amount claimed was correct.

## **REPORTING ACCOUNTANT'S OBSERVATIONS – PREVIOUS YEAR**

6. It was identified in the previous claim (2020/21) that there were some incorrectly keyed service charges that had resulted in an underpayment. Given the nature of the error and the potential for overpaid benefit to arise, additional testing of Subsidy was undertaken on an additional random sample of 40 cases in the 2021/22 claim. No further cases were found, and this matter is considered as closed.

## **SUMMARY OF TESTING 2021/22**

7. In accordance with the Housing Benefit Assurance Process, testing of an initial sample of cases was completed for all general expenditure. It should be noted that not all expenditure is fully subsidised and therefore the total expenditure in these cells will not match the amount of subsidy claimed.

A summary of the testing comments is below:

<b>(a) Subsidy cell 094 (Rent Allowance expenditure) Value £8,237,303</b>
<b>Authority Unable to provide Tenancy Agreement</b>
Testing found one claim where the LA did not hold the tenancy agreement to verify the rent, extended testing identified a further three similar cases. A document retention and destruction policy under GDPR led to a practice of deleting documents over six years old. The Authority was able to obtain current evidence to show that the eligible rent being used in the calculations was correct in respect of all cases retested. <b>The RA has not recommended an adjustment to the claim as they are satisfied the awards are correct.</b>
<b>Incorrectly Calculated Occupational Pension</b>
A claim was identified where the occupational pension used in the calculation was incorrect, resulting in an underpayment. As this type of error could result in an overpayment, the Authority conducted testing on all the remaining cases with an occupational pension. <b>No further issues were found, and no adjustment was needed.</b>
<b>Incorrect eligible rent</b>
One claim was found where the eligible rent had been incorrectly calculated. Whilst this had no impact on the benefit paid, the nature of this type of error could result in an overpayment. The Authority therefore evaluated a further 40 cases checking eligible rent. <b>No further issues were found, and no adjustment was needed.</b>
<b>Incorrectly calculated service charge</b>
One claim was found where ineligible service charges had been incorrectly stated, resulting in an underpayment of benefit. As the incorrect calculation could also result in an overpayment, the Authority conducted testing on a further 40 cases. <b>No further issues were found, and no adjustment is needed.</b>
<b>Incorrect backdating date</b>
One backdated claim was found where the start date was incorrect resulting in a technical overpayment of benefit. The Authority evaluated the remaining cases, and no further errors were found. <b>An adjustment was made to the sub-cells within the claim form to account for this one error. These changes do not affect the headline cell, and the amount of subsidy claimed is correct.</b>

<b>(b) Subsidy Cell 055 (Housing Rent Account rent rebates expenditure) Value £4,961,438</b>
Testing of claims found no issues.

<b>(c) Subsidy cell 011 (Non-Housing Rent Account rent rebates expenditure) Value £593,919</b>
Testing of claims found no issues.

<b>(d) Subsidy cell 225 (Modified Schemes expenditure) Value £7108</b>
Testing for claims found no issues.

## **RISK ASSESSMENT**

8. The housing subsidy claim is a significant reimbursement to the Council. Any issues found by the Reporting Accounting can therefore have a financial impact on the Council. The report of the Reporting Accounting to the Council do not indicate a significant risk in relation to 2021/22.

## **CONCLUSION**

9. Ernst and Young's full report setting out the findings of their testing has been submitted to the DWP who will use the information to settle the subsidy claim.

### **Background Papers:**

Reporting accountant's report for the Housing Benefit Subsidy claim form MPF720A for the year ended 31 March 2022.

### **Reference Papers:**

DWP Housing Benefit Assurance Process Module 6 (approach and testing strategy)

### **Enquiries:**

For further information on this report please contact Zoey Hillary. (Ext 4402)



# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 11 March 2024

**Report of:** Chief Executive Officer

**Subject:** EXTERNAL AUDIT – VALUE FOR MONEY INTERIM REPORT  
2022/23

#### SUMMARY

The Committee is asked to consider the External Auditor's Value for Money Interim Report, summarising the findings from the work completed to date on the 2022/23 accounts.

#### RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee notes the contents of the Value for Money Interim Report (Appendix A).

**Background and Reference Papers:** None

**Enquiries:** For further information on this report please contact Elaine Hammell. (Ext 4344)



Fareham Borough  
Council

Value for Money Interim Report

Year ended 31 March 2023

21 February 2024

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Members of the Audit and Governance Committee  
Fareham Borough Council  
Civic Offices  
Civic Way  
Hampshire  
PO16 7AZ

21 February 2024

Dear Audit and Governance Committee Members

2022/23 Value for Money Report

We are pleased to attach our interim commentary on the Value for Money (VFM) arrangements for Fareham Borough Council. This commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified (of which there are none) along with recommendations for improvement. The commentary covers our interim findings for audit year 22/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. The National Audit Office (NAO) issued a consultation on 8 February 2024 seeking views on changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements. The consultation proposes to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. At this stage, we are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code.

This report is intended solely for the information and use of the Audit and Governance Committee and management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 11 March 2024.

Yours faithfully

Ben Lazarus

Partner

For and on behalf of Ernst & Young LLP

Encl

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01 Executive Summary



02 Value for Money Commentary



03 Appendices



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee and management of Fareham Borough Council in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of Fareham Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of Fareham Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





BOARDROOM



# 01 Executive Summary



# Executive Summary

## Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditor's provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice and Auditor Guidance Note 3 (AGN 03).


The purpose of this interim commentary is to explain the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 22/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. EY are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this interim report to the Audit and Governance Committee:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria – we have not identified any significant weaknesses;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings to date from our planned procedures; and
- Summary of arrangements in place over the period covered by this report (Appendix A).

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report once the audit report has been issued for 2022/23.



# Executive Summary (continued)

## Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with the Chief Executive Officer and Head of Finance and Audit;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

Our work is substantially complete with the only outstanding items being the responses to our request for assurances from management in relation to updating our understanding of management processes and arrangements. Subject to receiving management's response and positive assurances, we have not identified any significant weaknesses in the Council's VFM arrangements.

As a result, we have no matters to report by exception in this report at this stage of the audit and we will update our interim reporting as part of issuing the final commentary in the Auditor's Annual Report later in the year.



# Executive Summary (continued)

## Reporting

Our interim commentary for 2022/23 is set out over pages 10 to 12. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2022/23. Where appropriate we have ensured we understand arrangements up to February 2024 to ensure appropriate retrospective conclusions can be made relating to 2022/23.

We have no recommendations arising from our VFM work.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Annual Auditors Report and have been updated for 2022/23.

In accordance with the NAO's 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body's arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified



# Executive Summary (continued)

## Independence

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

There are no relationships from 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## EY Transparency Report 2023

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 2023:

[EY UK 2023 Transparency Report | EY UK](#)



## 02 Value for Money Commentary

# Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified

The council has appropriate arrangements in place to ensure financial sustainability.

The medium term financial strategy is updated annually, looking forward over a 4 year period.

During 2022/23, the MTFS in place was the "Medium Term Finance Strategy 2022/23 - 2026/27". This was revised and approved in January 2023 by the Executive and forecasted a use of reserve of £798k in 2023/24 and a further use of reserve over the following 3 years of £1.09m cumulative.

The latest Medium Term Financial Strategy (MTFS) was presented at the 9 January 2023 Executive meeting. This predicted a funding shortfall of around £401,000 in 2023/24 rising to £2,400,000 by 2026/27. The Executive report identified the need for a further Opportunities Plan for 2023/24 to address the budget shortfalls before the reserve position falls below a prudent level.

Subsequent to the year, the most recent update to the Opportunities Plan for 2023/24 was presented to the Executive in September 2023. The projects contained in the Plan have the estimated potential to positively impact on the Council's budget by £556,024 in 2023/24, increasing to £950,743 in 2024/25.

There are projected cumulative gaps in the Opportunities plan, in the region of:

2023/24 Budget gap of £416k, the opportunities plan projected to deliver additional income of £556k potentially resulting in a budget surplus of £140k

2024/25 Budget gap of £1,568k, the opportunities plan projected to deliver additional income of £951k potentially resulting in a reduced budget gap of £617k

These gaps will need to be addressed by the Council in the forthcoming periods, but the Council has a positive track record of addressing gaps through their annual budget processes and putting in place arrangements to do so in advance of the annual budgets based on their forward projections.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services. Please see Appendix A for more detailed commentary on this domain.

# Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

No significant weakness identified

The Council had arrangements in place to ensure it made informed decisions and properly managed its risks.

The Council maintains an internal audit service which is resourced in partnership with Portsmouth City Council. The Head of Audit, however, remains an employee of Fareham Borough Council. The internal audit service provided independent assurance on the effective operation of controls in accordance with the internal audit strategy and internal audit charter. This helps in the delivery of the whole scope of audit work and in maintaining independence. An exercise has also been carried out with other audit teams in Hampshire to document where assurances can be shared.

Managers receive a report of findings following an internal audit review and an action plan is agreed to address any weaknesses found. These actions are tracked until they are completed. An action management system has been developed to improve the information available to managers and help capture updates on implementation.

A summary of the work undertaken and the findings are reported quarterly to the Audit and Governance Committee. In 2022/23 a new format for the Head of Audit's report was piloted.

As well as the Internal Audit service, the Councils also maintains a Corporate Fraud Team and an Investigations Team, and their work is also used by management to gain assurance on arrangements to prevent and detect fraud.

The Council has an Audit and Governance Committee which undertakes the functions of an Audit Committee in accordance with the CIPFA guidance. It reports directly to the Full Council.

The Monitoring Officer and Chief Finance Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means and are present at all the executive Committee meetings, along with a representative from the legal services partnership.

Following on from the recruitment process for a new Chief Financial Officer which started in 2022/23, the former Deputy Chief Executive and Chief Financial Officer was promoted to the Chief Executive during 2023/24 and the senior management structure was revised at the end of July 2023. The Chief Executive Officer remains the statutory s151 officer, but we are of the view this should be a short-term arrangement that should be reviewed to ensure statutory roles have appropriate focus and capacity. The Council aims to be fully recruited, including a new s151 officer, by March 2024.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to make informed decisions and properly manage its risks. Please see Appendix A for more detailed commentary on this domain.



# Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

The Council has arrangements in place to improve economy, efficiency and effectiveness. These derive from the Corporate Plan, setting out the Council's priorities and objectives. The Council's Executive monitors progress against the key projects, budgets and performance measures on a regular basis.

The Council uses a range of mechanisms, both formal and informal, to evaluate its performance in delivering services. A new performance plan approach is being developed in 2023/24 in line with the new Chief Executive Officer's vision.

The Council produces a range of commitments and measures each year within its Local Service Agreements. This is a public document that helps to explain what customers can expect from the Council and reports how well its doing. This is formally approved by the Executive and scrutinised by the Policy and Resources Scrutiny Panel.

Fareham Borough Council employs a Procurement team to assist services when carrying out procurement processes and ensuring the Council is up to date with any changes in procurement law, and that their procedures meet the latest national and international requirements. Along with the internal audit team, they keeping the Council's Procurement and Contract Procedure Rules current and relevant to the organisation's needs.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services. Please see Appendix A for more detailed commentary on this domain.



# 03 Appendices



# Appendix A - Summary of arrangements

## Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

### Reporting criteria considerations

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

### Arrangements in place

The Medium-Term Finance Strategy (MTFS) is reviewed annually and involves discussions with the Deputy Chief Executive Officer, Head of Finance and Audit and two Finance Managers who should be aware of most the significant pressures arising. The Finance Managers are in regular discussion with the Finance Business Partners, at least once a month. All services are assigned a Finance Business Partner and their role is to be in regular discussion with their services to identify financial pressures arising. The Council also subscribes to the Pixel Financial service and receives regular updates and webinar opportunities to hear how changes in government policy around core funding streams, such as RSG and business rates, may affect the Council.

Where there are significant changes occurring in the year which affect the MTFS assumptions, these will be built into the MTFS workings to see the effect. If the changes are significant such as in 2020/21 this may result in an extra emergency budget being taken to the Executive before the update of the MTFS was scheduled.

Regular Corporate Financial Forecasting meetings are held with the Deputy Chief Executive Officer, Head of Finance and Audit and two Finance Managers to review the current financial position. This is backed up by a "Good News/Bad News" update from each of the Finance Business Partners and an update on the financial position of the Key/Volatile services. These meetings were reduced in frequency during 2022/23 whilst the finance team designed and set up a new CFF management dashboard on the new T1 finance system. The new full CFF approach was launched in February 2023 and meetings diarised every 2 months from July 2023. There is a new agenda document which matches the CFF dashboard on T1. The timing of the CFF meetings should allow 2 feeder meetings to have taken place: one on Collection Fund Monitoring and one on Debt Collection. Issues arising from the CFF meeting are then fed back at the Financial Business partners meetings which are booked for the same week.

Further financial monitoring is introduced if needed and in particular is more frequent at the end of the year as the outturn position is being tracked. In May 2022 additional meetings were arranged to look at the impact of the cost of living on the 2022/23 budgets. From November 2023 the process will be strengthened with monthly budget monitoring meetings with the finance managers and quarterly updates on the financial position to the Strategic Leadership Team. More separate time will also be diarised to monitor the position on the HRA fund.

Conclusion: No risk of significant weakness identified in these arrangements.



# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

### Reporting criteria considerations

### Arrangements in place

How the body plans to bridge its funding gaps and identifies achievable savings

The MTFS contains a 5-year projection of net expenditure and funding sources and highlights any funding gaps arising. A significant funding gap by 2025/2026 was identified in the MTFS produced at the end of 2022/23. A presentation on this budget gap was given to members in January 2023 to recognise the significance.

The Deputy Chief Executive Officer was then assigned to lead on a process to develop the next Opportunities Plan to help bridge the funding gap and launched the process with a targeted communication campaign for the budget holders, other staff and members. Meetings were held with each Head of Service (or equivalent) by the Head of Finance and Audit and relevant FBP. The ideas generated were then moderated in separate meetings held with the Director the Service, Head of Finance and Audit and Policy, Research and Engagement Manager (lead for the Opportunities Team). All the ideas were fed into a long spreadsheet of ideas, using the Opportunities Team, and the ideas were then further moderated by the Chief Executives Management Team. All the ideas were then presented to the Executive Officers and Scrutiny Panels for further moderation and idea generation. This resulted on the next Opportunities Plan which was reported to Executive members in September 2023.

Reserves have again been allocated to finance costs which would be needed to achieve the implementation the projects identified.

Progress on delivery of the plan is being reported to the Senior Leadership Team and Executive / Policy and Resources Scrutiny Panel.

Savings being achieved as projects are delivered are built into the budgets each year and highlighted in the Executive reports.

Larger projects are also subject to specific reports to the Executive supported by member briefings

Reserves are also maintained to solve short-term issues outside of the Opportunities Plan. For specific reserves are earmarked to solve problems like the extraordinary Ash Dieback costs.

Conclusion: No risk of significant weakness identified in these arrangements.

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

### Reporting criteria considerations

### Arrangements in place

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

Formal budget setting is carried out in the summer / late autumn each year with updates during the year as appropriate. This involves discussions between each service manager and their Finance Business Partners to ensure that funding is built in to deliver the statutory and other priorities for the service. In 2022/23 the Council implemented the new budgeting and forecasting modules in the T1 system to make this process more integrated.

The Council maintains a Corporate Strategy which sets out its strategic priorities. The new 5-year strategy was adopted in 2023/24. Service managers and Finance Business Partners are made aware of the content of the document and take this into account when setting the budgets each year. Work is also planned to produce a formal support document to map the budget allocations against the corporate strategy headings, particular where capital funding will be required.

The funding will be monitored through the budgetary control process.  
Conclusion: No risk of significant weakness identified in these arrangements.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

Operational changes are identified by Finance Business Partners during the year through discussion with their service managers; they are also involved in checking any reports going to the various decision-making committees which have financial implications. This will include specific plans for the organisation. Any significant changes are highlighted in the good news / bad news updates prepared by the Finance Business Partners.

The Council has a number of well-established partnerships which are built into the normal budgetary control processes. Any significant changes to the partnership will be subject to reports to the Executive Committee which will highlight the financial implications. Finance Business Partners will be involved in the production of these reports and can capture the implication for the financial plan.

There is an establishment monitoring process carried out by the finance team which feeds into the Corporate Financial Forecasting monitoring and the MTFS. Any changes in establishment is subject to the completion of a financial implication sheet which is prepared in consultation with the relevant Finance Business Partner. Projects to be added to the Capital programme are subject to the completion of a capital evaluation form. The funding needs for the resulting capital programme are discussed between the two Finance Mangers and any need for Revenue contributions or use of reserves identified. This is monitored through the Corporate Financial Forecasting meetings.

Conclusion: No risk of significant weakness identified in these arrangements.

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

### Reporting criteria considerations

### Arrangements in place

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Regular Corporate Financial Forecasting meetings are held with Deputy Chief Executive Officer, Head of Finance and Audit and the two Finance Managers to review the current financial position. This is backed up by a “Good News/Bad News” update from each of the Finance Business Partners, who will be picking up unplanned changes in demand from their budget meetings with service managers. Where there are significant changes occurring in the year which affect the MTFs assumptions, these will be built into the MTFs workings to see the effect. In May 2022 the impact of the cost of living on the MTFs assumptions was identified as something that needed specific attention.

A risk management discussion is held with each Head of Service or equivalent each year. The relevant Finance Business partner attends these as often issues arise which have financial implications that they need to consider.

In 2020/21 Fareham Borough Council supplemented this process by the introduction of weekly Covid dashboards to highlight the financial impact of the pandemic where assumptions underlying the current financial plans were significantly affected and needed revising.

In 2019/20 Fareham Borough Council introduced a “Living within our means” campaign to highlight to managers the predicted overspend for the year and the need to turn around the trend in spending. In 2020/21 this moved to a “Living below our means” campaign due to the financial forecasts arising from the Covid dashboard monitoring, which sought to minimise the level of reserves that would be needed to finance the council’s spending that year and in the following year.

In 2021/22 work was targeted on the impact of the Cost Of Living increases to the Council’s costs and 2022/23 was targeted on focusing attention to the Budget Gap and development of the Opportunities Plan.

Reserves are also available to solve short-term issues.

Conclusion: No risk of significant weakness identified in these arrangements.

# Appendix A - Summary of arrangements

## Governance

We set out below the arrangements for the governance criteria covering the year 2022/23.

### Reporting criteria considerations

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

### Arrangements in place

The council adopted a new approach to risk management in 2017, based on vanguard principles. This stresses that risk management is an integral part of everyday management and decision making and not as a separate corporate process and therefore do not maintain risk registers except for specific topics and projects. The policy sets out the 7 principles of good risk management at the Council. Meetings are held with Internal Audit, Finance Business Partners and Heads of Service to identify the risks to their services every year (in two 6 monthly batches) and examples are obtained of changes in their risks that they have been managing in the last 12 months. These feed into a report to the senior management team and the Audit and Governance Committee. In particular, the report highlights those risks where further actions are needed or there are financial implications arising.

The Council maintains an internal audit service which is resourced in partnership with Portsmouth City Council. The Head of Audit, however, remains an employee of Fareham Borough Council. The internal audit service provided independent assurance on the effective operation of controls in accordance with the internal audit strategy and internal audit charter. A plan of work is set for the team each year per the Internal Audit Plan. Progress on delivering the plan and the latest findings arising are reported to each meeting of the Audit and Governance Committee. The results of all this work is used in the Annual Head of Audit's Opinion report along with other sources of assurances on internal control available that year, to provide the Audit and Governance Committee an annual assurance opinion. Highlights are also presented to the Chief Executives Assurance Group.

As well as the Internal Audit service, the Councils also maintains a Corporate Fraud Team and an Investigations Team, and their work is also used by management to gain assurance on arrangements to prevent and detect fraud. Individual risk assessments and action plans are being developed for the highest fraud risks identified for the Council. The scope of the work carried out by internal audit includes testing the adequacy of controls to prevent or detect fraud or error. The reports include overall assurance opinions for each audit and highlight any weaknesses in controls designed to prevent and detect fraud and error. The Annual Head of Audit's report also highlights any income or expenditure errors (including the value) which have been identified from audit testing.

An Annual Counter Fraud Report is also produced and presented to the Audit and Governance Committee by the Head of Finance and Audit. The Section 151 Officer is also kept aware of any significant Corporate Fraud investigations, particularly where internal fraud is suspected and is often the Steering Officer for these cases so is aware of what is being found in these cases.

Conclusion: No risk of significant weakness identified in these arrangements.



# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

### Reporting criteria considerations

### Arrangements in place

How the body approaches and carries out its annual budget setting process

As part of the implementation of the new T1 finance system the Council has purchased an integrated budgeting and forecasting module. This was set up in 2022/23 but has had a few issues which means it has not been possible to fully abandon the process previously used when setting the 2024/25 budgets. The budget papers roll the base budget forward and the Finance Business Partners make known changes in line with the guidance from the MTFs and following discussions with the service managers. The Finance Manager is responsible for overseeing the whole process and will regularly monitor the budget position from an overall perspective including the financing of the budget from central government grants, retained business rates and council tax funding. The Finance Manager also leads on feeding in the amended establishment costs for the year. The other Finance Manager prepares the projections for the Capital programme to feed in any financing implications to the revenue budget preparation.

Once all the information has been collated the Finance Manager pulls together the overall budget proposed and updates the 5-year projections. The budget set and the council tax implications are presented to the Executive Committee.

Conclusion: No risk of significant weakness identified in these arrangements.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

Budget reports are produced electronically daily and are available to the budget managers. They are used and adapted by Finance Business Partners in their regular budgetary control monitoring meetings. With the introduction of T1 these are now integrated as an "FBC Budget Monitoring" report within the system.

Regular Corporate Financial Forecasting meetings are held with the Deputy Chief Executive Officer, Head of Finance and Audit and the two Finance Managers to review the current financial position. This is backed up by a "Key Service update" and a "Good News/Bad News" update from each of the Finance Business Partners, which highlights issues arising from their meetings with service managers.

Formal budget monitoring information is presented to members as part of the next year's budget setting process at which points revised budgets will be set. A six-monthly position report is also presented to the Executive each autumn. An outturn position report is presented to members in July each year which includes a narrative of the financial activity in the year. A narrative report is included in the Statement of Accounts highlighting the financial and non-financial performance in the year. This is presented to the Audit and Governance Committee.

Conclusion: No risk of significant weakness identified in these arrangements.

# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

### Reporting criteria considerations

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

### Arrangements in place

The Constitution, including the Schemes of Delegation, sets out how different types of decisions are made, including who has the responsibility for making them and what procedures should be followed. Procedures include publishing committee reports on the Council's website in advance of meetings.

The committee structure follows the Executive Leader and cabinet model, which requires Fareham to have a scrutiny function. The Council uses a Scrutiny Panel for each of its six portfolio areas plus 2 extra Scrutiny Panels not aligned to a portfolio (Climate change and Daedalus). Each Panel is made up of seven non-executive councillors and reflects the political balance of the elected members. The Panels normally meet a minimum of four times a year with extra meetings called when needed. Each Scrutiny Panel has a Priority Plan which identifies the objectives from the Corporate Strategy and areas of the executive function that require their scrutiny; for example, budget setting falls under the Policy and Resources Scrutiny Panel. Part of the panels' focus is to be engaged in pre-scrutiny work and to have an input in the decision-making process by making recommendations to the Executive. In some cases, specific member working groups are in place to assist in the development of service visions and strategies.

The Monitoring Officer and S151 Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means and are present at all the executive Committee meetings, along with a representative from the legal services partnership.

The Notice of Key Decisions highlights any key decisions due to be made and these are published 28 days prior, to enable wider transparency and opportunities for representation to the decision makers. These are discussed in advance by the Senior Leadership Team.

Where partnerships have been developed with other agencies, decision making powers and delegated powers are documented and presented to members.

The Audit and Governance Committee's role is not to challenge the decisions of the Executive, that is the role of the Scrutiny Panels. Their role is to review the adequacy of the governance arrangements including decision making which is covered when they review the Annual Governance Statement and review the changes being made to the Constitution.

Conclusion: No risk of significant weakness identified in these arrangements.

# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

### Reporting criteria considerations

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

### Arrangements in place

In accordance with the Localism Act 2011 Fareham Borough Council has a Code of Conduct which sets out the behaviours expected from our members, and arrangements in place to deal with any matters identifies of ethics, honesty and member conduct. This includes a formal member complaint procedure which is overseen by the Monitoring Officer. New members receive an induction session on the Code including how to declare interests in advance and at committee meetings.

A report is presented annually to the Audit and Governance Committee setting out the number of complaints received about member and any trends. A standards sub-committee is set up when a significant breach by a member requires investigation and the conclusion is reported at the next meeting of the Audit and Governance Committee and Full Council.

The Council's Code of Conduct and Disciplinary Rules and Procedure aim to maintain appropriate standards of conduct at work by employees. This policy was fully updated in June 2022 and a new platform for registering interests was also implemented. All new employees complete induction on the content of the Code. A revised policy on employee gifts, hospitality and interests has been drafted to meet the needs of the Bribery Act and still needs to be finalised The Council has an Anti-Bribery policy and a Whistleblowing policy and channels to allow concerns to be raised.

Conclusion: No risk of significant weakness identified in these arrangements.

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

### Reporting criteria considerations

How financial and performance information has been used to assess performance to identify areas for improvement

### Arrangements in place

The budget monitoring report identifies key services that are of high demand or have a net budget of over £1m. The reporting of these services highlights where risks can be identified should these areas be overspent. They are also targeted for review in the CFF process.

At the end of the year any areas which were overspent are discussed in the Finance Business Partners meeting and an action plan devised to work with the service to bring the spend under control. This process will be changing in 2023/24 when the top 6 services forecast to overspend are being highlighted in the quarterly budget monitoring reports to SLT.

Performance information is also collated, particularly in the form of the service level agreement report and discussed to identify areas for improvement. A new performance plan approach is being developed in 2023/24 in line with the new Chief Executive Officers vision.

Conclusion: No risk of significant weakness identified in these arrangements.



# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

Reporting criteria considerations	Arrangements in place
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The Council uses a range of mechanisms, both formal and informal, to evaluate its performance in delivering services, and for identifying and delivering service improvement opportunities.</p> <p>It starts from the top, with a clear expectation that the services provided should be delivered in a way that puts the customer at the heart of the process. This has been embedded throughout the organisation through a formal roll-out of the Vanguard method of service improvement over recent years. Alongside this, a strong and clear message, enshrined within the Council's corporate objectives to be a "dynamic prudent and progressive council", has been cascaded throughout the organisation to ensure that services are not only highly effective, but they are also efficient too.</p> <p>Lines of responsibility in leading service delivery make it clear that Heads of Service are responsible and empowered to make continuous improvements to deliver services that meet customer expectations within affordable financial parameters. Documents such as the Chief Executive's "Expectations of a Director, and Head of Service" ensure that this approach is consistent across the organization.</p> <p>Understanding actual performance is key, and this is measured across all front line services using "10/10" surveys where Heads of Service contact a sample of customers and first ask them to rate the Council's service out of 10, and then ask them what it would take for the Council to get a 9 or 10" This customer feedback helps the Council understand what it would take to achieve excellent customer service and (where appropriate) the processes within the service are adapted to reflect these suggestions.</p> <p>Similarly, the Council produces a range of commitments and measures each year within its Local Service Agreements. This is a public document that helps to explain what customers can expect from the Council and reports how well its doing. This is formally approved by the Executive and scrutinised by the Policy and Resources Scrutiny Panel.</p> <p>All of these channels provide the leadership team with a rounded view of how well services are performing from the customer's perspective and enables the Council to focus on areas where improvement may be necessary.</p>
	<p>Conclusion: No risk of significant weakness identified in these arrangements.</p>

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

### Reporting criteria considerations

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

### Arrangements in place

The Council maintains a Corporate List of its significant partnerships. These are assessed for their significance in terms of the results they seek to deliver, their profile/reputation and resources involved.

Lead officers are assigned to each partnership. They are responsible for the day to day liaison with the stakeholders and customers of the partnership and for providing the Senior Leadership Team with details of any significant changes to the circumstances / membership of the partnership.

Senior Officers and/or Members sit on the board of the Council's significant partnerships and take an active part in discussions and decision making including the delivery of strategies and performance plans set for the partnership. The Council is the lead on the financial management for the Building Control Partnership (with Gosport Borough Council and Portsmouth City Council) and is also finance lead on the Environmental Health partnership with Gosport Borough Council so is in a good position to ensure the financial control and effectiveness of the partnerships. There are regular board meetings held and a representative of the finance team will provide an update on the financial position.

The Coastal Partnership is led by Havant Borough Council and regular monitoring meetings are held to discuss how the partnership is performing. An action delivered in 2022-23 has been to update the agreement and monitor the delivery of assurance arising from financial and internal audits.

The Legal Partnership with Southampton City Council is monitored closely to ensure that the hours worked is not breached or that work is carried out at a relevant level so as to make sure that the partnership is not overspent at the end of the year or any additional hours or cost will be agreed between the two parties.

An annual report on partnerships is collated and reviewed by the Senior Leadership Team each year to confirm the significance of the partnerships, review any potential governance issues and review how each is performing. There is also now an annual Partnership governance report presented to the Audit and Governance Committee as part of the Head of Audits Opinion.

Conclusion: No risk of significant weakness identified in these arrangements.

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

Reporting criteria considerations	Arrangements in place
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How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council employs a Procurement team to assist services when carrying out procurement processes. They are professionally trained and in constant contact with the Southampton Legal team to ensure that they keep up to date with changes in procurement law, and that their procedures meet the latest national and international requirements. They are also key parties along with the internal audit team to keeping the Council's Procurement and Contract Procedure Rules current and relevant to the organisation's needs. One of the key principles of the Rules are that a manager should be able to "Justify their Spend". Services are required to liaise with the procurement team and their Finance Business Partner when carrying out significant purchasing decisions and the group have to all agree a procurement approach else there is an escalation process to be followed. This includes when the purchase is complex or organisational sensitive such as the procurement of a service provider. There are a set of key questions that are asked when a significant purchase is being made.

Once a contract is in place there is a named lead officer assigned to monitor the performance of the contract. This will usually involve regular meetings with the contractor and a review of any performance measures agreed as part of the contract. For relevant services, such as housing, this will also include satisfaction monitoring with the customer. Where appropriate, rectifying actions are agreed and documented. Where performance does not meet expectations and the actions are not delivered, the Council may consider ending that contract relationship. This decision is usually taken in consultation with the contract manager, the director of that service and the procurement team. There are some expectations of the manager during the contract management stage contained in the Procurement and Contract Procedure Rules but these are not extensive. In early 2023-24 approval was obtained to start rolling out a Contract Management Pioneer Programme to support managers in their role in contract management. This involves each manager completing an online training course provided by the Government Commercial College. The Council also recognises critical suppliers/businesses. Examples include the Leisure Centre Operators, the provider of the responsive housing repairs contract, the airport operator at Daedalus and tenants of investment properties. A member of the finance team is assigned to each supplier and tasked with carrying out monitoring of the financial stability of the supplier using the Council's on-line Dunn and Bradstreet tool.

The Internal audit service includes some coverage in their plan of work to look at purchasing decisions and whether the suppliers are providing value for money. Purchasing officers for a sample of purchases are interviewed and questioned on their knowledge of their total spend trends with a supplier, how the supplier was chosen and whether the appropriate route to market had been taken. They are also questioned on how they can give assurance on how some of the items on a selected invoice provides value for money. Where possible, they are compared to the cost of similar purchases made or available by open-source searching. Other areas examined include on-going contract monitoring, invoice verification and future planned market testing.

Conclusion: No risk of significant weakness identified in these arrangements.

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ED None

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# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 11 March 2024

**Report of:** Chief Executive Officer

**Subject:** EXTERNAL AUDIT – AUDIT UPDATE

#### SUMMARY

The Committee is asked to consider the External Auditor's Audit Update Report, summarising the proposals for the delivery of the audits of the 2022/23 and 2023/24 accounts.

A national consultation has been launched by the Department of Levelling Up, Housing and Communities on proposals to tackle the current audit backlog across the country consisting of 3 phases: Reset, Recovery and Reform. This closes on 7<sup>th</sup> March 2024.

The External Auditor for Fareham Borough Council currently proposes to:

- a) Limit the scope of coverage for 2022/23, to the Value for Money work already completed. This will result in a disclaimer being given for the 2022/23 accounts.
- b) Concentrate resources this year on the 2023/24 accounts to deliver the opinion by November 2024. This opinion will also be subject to a disclaimer due to the reduced coverage of the 2022/23 brought forward balances.

This approach is allowable under the consultation proposals, although later timescales are also permissible for the 2022/23 accounts (September 2024) and the 2023/24 accounts (May 2025).

#### RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee notes the contents of the Audit update report.

**Background Paper and Reference Papers: None**

**Appendices: -**

- **Appendix A** - Letter to authorities from Simon Hoare , Minister for Local Government 8 February 2024
- **Appendix B** – Local Audit Delays, Joint Statement on update to proposals to clear the backlog and embed timely audit
- **Appendix C** – External audit – audit update report (Ernst and Young)

**Enquiries:** For further information on this report please contact Elaine Hammell. (Ext 4344)





**Simon Hoare MP**  
*Minister for Local Government*  
2 Marsham Street  
London  
SW1P 4DF

To All Chief Executives, Chief Financial Officers,  
Local Authority Leaders and Local Audit Firm  
Partners

8 February 2024

Dear Colleagues,

### **Local Audit Consultation**

I am delighted that today the Government is launching a consultation and Joint Statement, progressing the commitments made by the previous Minister for Local Government to work with the Financial Reporting Council (FRC), and other organisations in the local audit system on cross-system proposals to clear the backlog and put the local audit system on a sustainable footing.

Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework. A significant number of local audits in England are outstanding. The issues facing local audit are widely recognised as multi-faceted and complex. Delays are to an extent affecting Scotland and Wales as well as England. They also impact different sectors, not just local government. It is widely recognised that many organisations in the local audit system have contributed to the delays experienced since 2017/2018 and that audits have become more challenging, with firms responding to a changing regulatory environment. In addition, pressures on the system were compounded during the COVID-19 pandemic and by an aging workforce.

The consultation seeks views on proposed legislative changes to the Accounts and Audit Regulations 2015 (the 2015 Regulations). We have published a draft statutory instrument alongside the consultation which covers the core elements of the proposed amendments. These, along with the Joint Statement are available at [www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation](http://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation).

These cross-system proposals have been developed and agreed by the Department for Levelling-Up Housing and Communities (DLUHC), the FRC, the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), and Public Sector Audit Appointments (PSAA).

These are not proposals we take lightly, but these are exceptional times. Key organisations across the local audit system, including the Government, share the conviction that bold steps are necessary to reset the system.

The Joint Statement provides vital context, and explains the package of measures and how the various elements are intended to interact and explains that the wider package of measures consists of three stages:

- Phase 1: Reset involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024.
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation itself covers questions on:

- Phase 1: 'Backstop' Proposals for Financial Years 2015/2016 to 2022/2023 and
- Phase 2: 'Backstop' Proposals for the Recovery Period, Financial Years 2023/2024 - 2027/2028

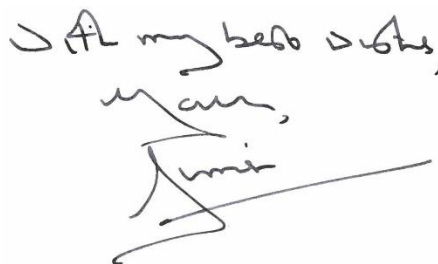
This consultation will run for four weeks from 8 February 2024 to 7 March 2024. This is an open consultation, and we welcome the views of any individual or entity interested in the proposals, including all Category 1 authorities and their Section 151 officers, audit firms, and other organisations which form part of the local audit framework. You can respond to this call for evidence through our online consultation platform Citizen Space: <https://consult.levellingup.gov.uk/local-audit-and-conduct/addressing-the-local-audit-backlog-in-england> .

The NAO is also consulting in parallel to this consultation, on related changes to the Code of Audit Practice. A link to the NAO consultation can be found here: [www.nao.org.uk/code-of-audit-practice-consultation](http://www.nao.org.uk/code-of-audit-practice-consultation). Further detail on the NAO's proposals can also be found in the Joint Statement. The CIPFA LASAAC Board will be consulting shortly on related changes to the Code of Practice for Local Authority Accounting.

While I recognise the challenges there have been I would like to encourage you to continue undertaking existing work to produce and audit local authority financial statements while the consultations take place. Any slowdown in activity would lead to further issues in the future and, ahead of the first proposed backstop date. Please do continue to work together to ensure that as many audits can be completed in full as possible.

These proposals are an important step in restoring timely and high-quality financial reporting and audit for local bodies and I am grateful for the hard work and collaboration of system organisations in developing these measures. Please let us know your views so that we can work closely together to refine and implement measures to clear the backlog of local audit opinions, and develop the long-term reforms required to prevent a backlog recurring.

I look forward to seeing your responses.



With my best wishes,  
Yours,  
Simon

**SIMON HOARE MP**  
Minister for Local Government



**Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit**

**Published 8 February 2024**

**Executive summary**

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers.

The backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level. The number of outstanding opinions peaked on 30 September 2023 at 918. As at 31 December 2023, the backlog of outstanding audit opinions stood at 771.

In July 2023, the Minister for Local Government published a [Cross-System Statement](#) to Parliament setting out proposals to tackle this backlog. Since then, organisations involved in the regulation and oversight of local body financial reporting and audit (“system partners”) have been working collectively to agree a proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return. This new Joint Statement provides an update on the proposals. All system partners share the conviction that bold steps are necessary to reset the system and recognise the exceptional nature of the proposed measures.

To clear the backlog of historical accounts and ‘reset’ the system, the Department for Levelling Up, Housing and Communities (DLUHC) proposes putting a date in law (the “backstop date”) – 30 September 2024 – by which point local bodies would publish audited accounts for all outstanding years up to and including 2022/23.

The National Audit Office (NAO) is proposing changes to the Code of Audit Practice to require local auditors to comply with backstop dates by giving their opinions in time for audited accounts to be published, and to allow them to provide a single commentary on value for money (VFM) arrangements for local bodies for all outstanding years up to and including 2022/23.

The duty for local bodies to publish a delay notice where the audit has not been concluded by the deadline will be withdrawn. This is because, with a backstop in place for both local bodies and auditors, authorities would be required to publish audited accounts by 30 September 2024. The introduction of a backstop date is intended to allow those who prepare and audit local body accounts to focus on more current financial periods.

The backstop date is likely to be a factor in local auditors issuing a modified or disclaimed opinion on outstanding accounts if they do not have enough time to complete all audit work before that date. It is important that local bodies, residents and other accounts users can distinguish between modified and disclaimed audit opinions caused by the introduction of backstop dates and those that indicate significant financial reporting or financial management issues.

Auditors have a responsibility under auditing standards to clearly communicate the reasons for their opinion within their report, including where the backstop date causes a modified or disclaimed opinion. System partners will consider guidance for auditors to remind them of these responsibilities. System partners will also issue communications that explain what the different types of modified opinions mean and that clarify that local bodies should not be unfairly judged based on modified opinions caused by the introduction of a backstop date that are largely beyond their control.

As was set out in the July Cross-System Statement, auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (including to make statutory recommendations or issue Public Interest Reports) are important for enabling identification of areas of concern at an early stage, allowing councils to address them. These remain a high priority in our proposals.

For these measures to achieve their intended objectives, auditors and local bodies need to work together to ensure that as many audits can be completed in full as possible. Auditors should make prioritisation decisions within their portfolio of the audits of local bodies to limit the impact on other public bodies' audits and ensure they complete the work required to conclude and report on whether there are any significant weaknesses in VfM arrangements. Preparers must ensure that any unaudited accounts from 2022/23 or earlier years, that have not been published, are published as soon as possible and respond to auditor requests in a timely manner.

The Financial Reporting Council's (FRC) Audit Quality Review (AQR) team will not carry out routine inspections of major local audits for financial years up to and including 2022/23, unless there is a clear case in the public interest to do so. Alongside this, the Institute of Chartered Accountants in England and Wales (ICAEW) has committed to mirroring this approach for its inspections of non-major local audits.

To ensure that delays do not re-emerge once the backlog of local body audit opinions has been cleared and 'recover' the system, DLUHC proposes to put further backstop dates into law for the publication of audited accounts by local bodies. These would cover the 5-year audit appointments awarded in 2022 by Public Sector Audit Appointments (PSAA) for financial years 2023/24 to 2027/28. As it is anticipated there would be modified and disclaimed opinions on outstanding accounts from the 30 September 2024 backstop date, this measure is designed to enable auditors to rebuild assurance over several audit cycles rather than in a single year, reducing the risk of the backlog re-emerging. This means there would also likely be modified or disclaimed audit opinions for several years.

To support the 'recovery' of the system, the CIPFA LASAAC Local Authority Code Board (CIPFA LASAAC) will consult on temporary changes to the Code of Practice on Local Authority Accounting to reduce burdens on those who prepare and audit local body accounts. These proposed changes include extending overrides on infrastructure assets, simplifying the professional revaluation of operational property, and reducing disclosure requirements around net pension assets and liabilities for at least 2 years.

PSAA will use its fee variation process to determine the final fees local public bodies will have to pay in relation to delayed audits and 2023/24 audits. PSAA will set the scale fees for 2024/25 in accordance with the Local Audit (Appointing Person) Regulations 2015. The FRC and the NAO will support PSAA as it determines the fee impact of changes in audit requirements. It will also review relevant aspects of the contracts for the audits from 2023/24 to identify changes required to align with the changes proposed in the consultations.

All system partners have a shared resolve that the current situation needs addressing and measures of this nature are needed to achieve the shared priority of restoring timely, high-quality financial reporting and audit. Further work is required to address the systemic issues that have led to the unprecedented backlog. The issues facing local audit are widely recognised as multi-faceted and complex with no single cause or solution.

The development of these proposals has involved widespread engagement since summer 2023, especially with auditors and finance teams. To support the further development and testing of the measures, 2 consultations have been launched today, in partnership with the FRC, to receive further feedback and inform the decision on how to proceed:

- DLUHC is seeking views on changes to the Accounts and Audit Regulations 2015 to introduce backstop dates for the publication of audited accounts
- The NAO is seeking views on changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements

CIPFA LASAAC will consult on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on the finance teams and auditors.

The 'local bodies' these proposals relate to include councils, but also other relevant authorities as defined under the Local Audit and Accountability Act (2014). It does not include NHS bodies.

### **Introduction**

1. Local bodies need to have accurate and independently audited accounts, delivered on time, to help them effectively plan, make informed decisions and manage their services. Local residents, councillors, central government and other accounts users need timely audited accounts to understand what money the local body has received and how it has used its resources so they can hold it to account. This is key to transparent, trusted and accountable local democracy.

2. In July 2023, the Minister for Local Government published a [Cross-System Statement](#) setting out proposals to set a series of backstop dates to clear the backlog in local audit opinions in England and embed timely audit. The Statement included commitments by the Department for Levelling Up, Housing and Communities (DLUHC), the Financial Reporting Council (FRC), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW) and Public Sector Audit Appointments (PSAA).

3. Since the publication of the Cross-System Statement, the Department has worked collaboratively with the FRC, as incoming shadow system leader, and the other system partners, to develop proposals to achieve the objectives. The proposals maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)). The proposals consist of 3 stages:

- **Phase 1: Reset** involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024
- **Phase 2: Recovery** from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles
- **Phase 3: Reform** involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit

4. Financial reporting and audit frameworks were not designed for the current backlog in local audit. Although these proposals have been designed to minimise risks and unintended consequences, the proposed measures are likely to result in a significant number of local authority accounts receiving modified or disclaimed opinions, during both Phase 1 and Phase 2. The work required to resolve the

local audit backlog will be challenging for both local body finance teams and auditors, as well as system partners.

### **Phase 1: Reset**

5. In line with the Cross-System Statement in July 2023, Phase 1 involves using legislation and changes to the Code of Audit Practice to implement a backstop date for the publication of audited financial statements which are outstanding for all financial years up to and including 2022/23. The current duty, set out in legislation, for local bodies to publish a delay notice in instances where the audit has not been concluded ahead of the deadline, would be removed.
6. Local auditors would be required to issue an opinion based on the work they have been able to complete to enable local bodies to publish audited accounts ahead of the backstop dates. An audit opinion can be either unmodified, modified (qualified or adverse) or disclaimed.
7. Auditing standards allow auditors to issue modified or disclaimed opinions in the event of a statutory backstop date, even in cases where little to no substantive testing has been carried out. As set out in the Cross-System statement in July, the proposed backstop date is likely to result in modifications or disclaimers of the audit opinion. System partners will provide clear communications to the system explaining what the different types of opinions mean, including explaining that modified or disclaimed opinions caused by the backstop date do not necessarily indicate significant financial reporting or financial management issues in a local body.
8. The auditors' statutory duty to report on VFM arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) are an important for identifying areas of concern at an early stage, allowing local bodies to address them. Under these proposals this will remain a high priority including during Phase 1.
9. The NAO consultation asks for views on changes to the Code of Audit Practice to enable auditors to produce a single commentary on VFM arrangements covering all outstanding periods up to 2022/23 and remind auditors of their obligations to use their statutory reporting powers to draw significant matters to the attention of bodies and residents in a timely way.
10. The proposed backstop date for Phase 1, as set out in DLUHC's consultation on changes to the Accounts and Audit Regulations 2015, 30 September 2024. This has been designed to enable sufficient time for auditors to issue opinions, including modified or disclaimed opinions due to the backstop, and for bodies to publish accounts containing those audit opinions once the legislation has come into force.
11. The NAO's consultation on changes to the Code and any subsequent laying of a new Code of Audit Practice in Parliament would support the backstop date. The proposed backstop date also recognises the multiple priorities of preparers and auditors. For example, finance teams need to, amongst other things, prepare budgets and medium-term financial plans, and for auditors, there will be pre-existing commitments to carry out other public sector audit work, including NHS external audit work, most of which will take place between April and June 2024.
12. The government will publish a list of local bodies and their auditors which do not meet the backstop date, making it clear where unaudited accounts have also not been published.
13. There will be no exemptions for auditors or local bodies except in very limited circumstances. The NAO will consult on specific exemptions to auditors issuing their opinion ahead of the backstop date as part of its consultation on changes to the Code of Audit Practice. These include, for example,

if the auditor is unable to issue their opinion where there are outstanding elector objections to the accounts that could be material to the opinion. DLUHC's consultation also includes a question about creating an equivalent exemption for local bodies in this circumstance, as well as a question seeking views on any other exceptional circumstances in which exemptions may be justifiable.

14. If auditors have completed the required work then they are able to issue their audit opinion ahead of the backstop date. Auditors are expected to complete as much audit work as possible ahead of the backstop date. The NAO, working closely with the FRC, will produce statutory guidance and any additional advice needed to ensure the reset works as intended.

## **Phase 2: Recovery**

15. The July Cross-System Statement set out that recovering from modified and disclaimed audit opinions requires significant work for preparers and auditors. Following modified or disclaimed audit opinions, auditors will need to audit some of the opening balances in order to obtain assurance over the current year closing balances. Where the audit opinion is modified or disclaimed, the auditor does not have assurance over all historical figures that carry forward into the subsequent year. Opening balances can impact closing balances and movements in the current year. In some cases, where the auditor does not have assurance over opening balances, they would be unable to obtain assurance over the closing balances.

16. System partners committed to consider the secondary effects of the proposals, which may impact the audit of opening balances within the accounts for future years. Under these proposals and to maintain compliance with the ISAs (UK), auditors need to perform sufficient testing on opening balances to rebuild assurance that enables them to issue unmodified opinions in the future.

17. To prevent this recovery work causing delays to future audits, the proposals involve establishing new statutory backstop dates for all financial years up to and including 2027/28. These backstop dates would replace the existing deadlines in the Accounts and Audit Regulations 2015. As at Phase 1, the current duty, set out in legislation, for local bodies to publish a delay notice in instances where the audit has not been concluded by the deadline, would be removed. The changes to the Code of Audit Practice in Phase 1 requiring auditors to discharge their statutory duties in relation to the financial statements audit in accordance with backstop dates would continue to apply in Phase 2.

18. These new backstop dates would enable auditors to rebuild assurance over local bodies' financial information which has been subject to modified opinion over a longer period of several years. The default position without backstop dates would be that auditors need to rebuild all assurance in the first year following a modified or disclaimed opinion, creating an exceptional workload in this first year, which would risk a recurrence of the backlog. Instead, these proposals enable spreading the work to rebuild this assurance over multiple periods, and we welcome responses on local bodies' and auditors' capacity to manage this work. Backstop dates may result in additional modifications or disclaimers of the audit opinion for some bodies. Unmodified opinions cannot be issued until assurance has been sufficiently rebuilt for the auditor to conclude that the financial statements as a whole are free from material misstatement. This proposal draws on the findings of the recent Levelling Up, Housing and Communities Committee report on financial reporting and audit in local authorities.

19. The FRC has confirmed that rebuilding assurance over multiple periods is compliant with ISAs (UK).

20. Taken together with the proposal outlined in 'Phase 1' for a backstop date of 30 September 2024 for all years up to and including 2022/23, the government is now consulting on the following additional backstop dates:

- Year ended 31 March 2024: 31 May 2025
- Year ended 31 March 2025: 31 March 2026
- Year ended 31 March 2026: 31 January 2027
- Year ended 31 March 2027: 30 November 2027
- Year ended 31 March 2028: 30 November 2028

21. These dates are intended to achieve a balance between restoring timely audit and returning to unmodified audit opinions for the majority of local bodies. They have also been designed, to the extent possible, to limit the impact on other public sector audits, including NHS audits.

22. As has been set out, returning to full and timely reporting on VFM arrangements is a priority. Whilst Phase 1 enables the auditor to incorporate outstanding VFM arrangements reporting for historical years into a single output under a reduced scope, proposals for Phase 2 involve the restoration of full scope VFM arrangements by 2023/24. In addition, it is proposed that the Code of Audit Practice will set a requirement that from 2023/24 the Auditors' Annual Report will be issued in draft to those charged with governance by 30 November each year, irrespective of the position on the audit, to enable auditors to report regularly on most of the VFM arrangements work in a more timely and predictable way.

23. To reduce burdens on preparers and support auditors spreading the work to rebuild assurance over multiple periods CIPFA LASAAC will consult on 3 temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25:

- extending the override relating to the valuation and disclosure requirements for infrastructure assets
- simplifying the revaluation of operational property and instead permitting the use of indexation until new requirements for revaluation of operational property are introduced in 2025/26 following HM Treasury's thematic review of the valuation of non-investments assets in the public sector
- reducing the requirements for disclosures around net defined benefit pension liabilities / assets for 2 years to align with those in FRS 102 (UK Generally Accepted Accounting Practice) rather than International Financial Reporting Standards (IFRS)

24. The current deadline for local bodies (other than NHS bodies) for the publication of unaudited accounts is 31 May following the financial year end. This means the 2024/25 unaudited accounts deadline is set to be the same date as the backstop date for 2023/24 audited accounts. The government's consultation includes questions asking for views over whether this will create any significant issues and for views on the 31 May deadline for 2024/25 to 2027/28.

#### **Consultations to deliver Phase 1 and Phase 2**

25. There will be 3 consultations to implement the Phase 1 and Phase 2 measures set out:



- DLUHC is seeking views on changes to the Accounts and Audit Regulations 2015 to introduce backstop dates for the publication of audited accounts
- The NAO is seeking views on changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements
- CIPFA LASAAC will consult on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on the finance teams and auditors

### **Commitments by the FRC to support delivery of Phase 1 and Phase 2**

26. All system partners recognise that the exceptional nature of the proposed measures means there will need to be an extensive programme of communications and engagement with local bodies, auditors and wider system stakeholders including elected members.

27. The FRC will support the NAO and CIPFA to issue guidance for preparers and auditors. The guidance for auditors will be designed to support audit firms with implementing the proposed approach to Phase 1 and Phase 2 in a way that is compliant with the ISAs (UK) and the Code of Audit Practice whilst supporting the overall objectives of the reset and recovery.

28. It is important that local bodies, residents and other accounts users can distinguish between modified and disclaimed audit opinions caused by the introduction of backstop dates and those that indicate significant financial reporting or financial management issues. Guidance for auditors will remind auditors of their responsibilities to communicate the reasons for a modified or disclaimed opinion in reports to audit committees and in the auditor's report. This includes indicating clearly where the modified or disclaimed opinion occurs because the auditor has not completed work ahead of the backstop date.

29. We expect audit committees and other stakeholders to take this into account and ensure that their decisions and judgements are cognisant of where modified or disclaimed opinions are a result of the introduction of backstop dates.

30. The FRC will also hold an exceptional local audit specific meeting of the Technical Advisory Group (TAG). TAG normally takes place every 2 months to consider the application of ISAs (UK), ethical and quality management standards. TAG provides a forum for firms to raise technical issues with the application of standards as well as a means for the FRC to informally consult on standards and guidance that it might issue. The purpose of the local audit specific TAG would be for the FRC to respond to queries from firms in applying the ISAs (UK) in light of the backstop dates as well as any technical guidance issued by the NAO or the FRC. It will also provide an opportunity for firms to discuss best practice and practical matters of implementation in a forum convened by the FRC. The FRC will invite all firms involved in local audit, and representatives from system partners, to this special TAG meeting.

31. In line with the July Cross-System Statement, the FRC's AQR team has recently set out changes to its regulatory approach as part of its [report on the quality of major local audits](#). This sets out that AQR will not carry out routine inspections of major local audits for financial years up to and including 2022/23, unless there is a clear case in the public interest to do so. AQR will provide further details on its planned approach to individual inspections for 2023/24 onwards, once the proposed measures are finalised. ICAEW has committed to mirroring the FRC's approach for its inspections of non-major local audits.

32. Working with DLUHC, the FRC is developing an escalated reporting framework. The intention is for the framework to be fully operational for 2023/24 audits so local authorities and auditors can use it to raise risks to individual audits meeting backstop dates and / or emerging systemic issues ahead of backstop dates to enable them and system partners to take appropriate action as early as possible. The framework is being designed to enable a coordinated response where there are more significant risks and complexities facing entities and ensure that system wide issues are identified as soon as possible so they can be addressed. We will provide further details on the proposed framework by the point the legislation on the backstop dates is in place.

33. The FRC intends to conclude its Audit and Assurance Sandbox on the approach to materiality on local audits in the first quarter of 2024 and will publish the findings. The Sandbox has brought together groups of auditors, practitioners, regulatory bodies and interested parties to explore potential pathways whereby auditors could set differential materiality levels for balance sheet items, such as operational property, from overall account materiality set based on expenditure.

#### **Commitments by ICAEW**

34. ICAEW has committed to mirroring the FRC AQR's approach for its inspections of non-major local audits.

#### **Commitments by PSAA**

35. PSAA will set scale fees and determine fee variations where the auditor undertakes more or less work than assumed by the scale fee in line with the Local Audit (Appointing Person) Regulations 2015. It will also consult with bodies where appropriate. Where possible (subject to sufficient satisfactory data and information from key parties), PSAA will develop indicative fee ranges and assumptions for areas where there is expected to be a change in the audit work carried out.

36. When PSAA subsequently determines the fees payable, the principles set out in the Cross System Statement will apply: if auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, and the body is due to pay the applicable fee, including where there is a modified or disclaimed opinion. Conversely, if an auditor has collected audit fees in part or in full, and the backstop date means that the total work done represents less than the fee already collected, then the auditor must return the balance and refund the body the appropriate amount – this ensures that the bodies pay only for work that has been done and reported.

#### **Expectations of auditors and local bodies to deliver Phase 1 and Phase 2**

37. If implemented, all system partners believe Phase 1 and Phase 2 taken together will result in an overall significant reduction in work compared to the option of not introducing backstop dates. Nevertheless, the success of these proposals depends on both auditors and audited bodies focusing on their obligations in the public interest for timely, high-quality financial reporting and audit.

38. During the consultation period, any local body with concerns about specific financial risk resulting from the proposals should discuss this with their auditors and engage with DLUHC or the relevant parent Department at the earliest opportunity. This may include, but is not limited to, bodies with covenants that require audited accounts with unmodified audit opinions. Any auditors with specific technical, practical, or ethical concerns should flag these with the FRC as soon as possible.

39. Any slowdown in activity would lead to further issues in the future. Ahead of the first proposed backstop date, auditors and local bodies should work together to ensure that as many audits can be completed in full as possible. Where work has already been completed to provide sufficient evidence to support the audit opinion, preparers and auditors should work together to publish the audited accounts as soon as possible.

40. The potential introduction of backstop dates does not preclude the legal responsibilities for local bodies to publish unaudited accounts and hold the 30-working day inspection period for local electors. Any local body that has not yet published unaudited accounts for all years up to and including the financial year 2022/2023, or held the inspection period, should do so as soon as possible.

41. Where a local body believes they will not be able to provide draft accounts, which have been subject to the 30-working day inspection period, to the auditor, with sufficient time ahead of the backstop date, they should, following engagement with their auditors, flag this with DLUHC or the relevant sponsor department as soon as possible. Auditors are only able to provide an opinion – whether unmodified, modified or disclaimed – on a set of accounts which have been certified by the Section 151 Officer as true and fair, subject to the 30-day inspection period and approved as final by those charged with governance.

42. It should not be necessary for the audit of the previous year's accounts for Section 151 Officers to comply with their responsibilities to certify that the unaudited accounts show a true and fair view as local bodies should have sufficient internal controls and processes for the Section 151 Officer to obtain this assurance.

43. In consultation with local bodies and those charged with governance, auditors will need to make prioritisation decisions about the work they complete on local bodies' audits. When making such prioritisation decisions, auditors should consider the impact on other local bodies' audits. For example, they may choose to prioritise conducting sufficient audit work on pension funds to provide IAS 19 assurances to auditors of other local bodies. Finance teams should ensure they provide high-quality evidence requested by auditors in a timely manner.

44. Where an auditor has not obtained sufficient audit evidence to conclude they have reasonable assurance that the financial statements as a whole are free from material misstatement, they will need to modify or disclaim their audit opinion, as required by the ISAs (UK). Auditors are reminded of their existing responsibilities to clearly communicate the reasons for modified or disclaimed opinions in the auditor's report. They should explain in reports to the audit committee if the modified opinion is caused by the introduction of statutory backstop dates and to communicate what work they have been able to carry out.

45. Auditors should also keep in mind that the July Cross-System Statement stated that the auditors' statutory duty to report on VFM arrangements and their wider reporting powers remain a high priority. Auditors will need to ensure that they are able to conclude and report significant weaknesses in VFM arrangements in the audit report ahead of the backstop date as this legal duty cannot be disclaimed. For audits undertaken under the 2015 Code of Audit Practice, covering years up to 2019/20, auditors will need to report their conclusion on VFM arrangements as part of the auditor's report. Where auditors have concerns about a local body's ability to prepare accounts of sufficient quality ahead of the backstop date, they should consider using their wider reporting powers.

46. The government recognises that all audit firms conduct a variety of public sector audit work in addition to local audit. Local auditors should plan and commit to deliver work ahead of the backstop dates that allows for their existing contractual commitments for other public sector audits. Apart from in exceptional circumstances, NHS England will not accept requests for extensions to audit deadlines for NHS bodies because of auditors needing to complete work ahead of backstop dates for non-NHS local audited accounts.

### **Phase 3: Reform**

47. Further, longer term work is required to address the systemic challenges that have led to the current local audit backlog. All parties to the Cross-System Statement have committed to continue work to ensure that financial reporting, auditing and regulatory requirements are proportionate and based on a common understanding of the purposes of local audit and reporting.

48. This work will build on the recommendations of the [Redmond Review](#), the recent Levelling Up, Housing and Communities Committee report into financial reporting and audit in local authorities and Public Accounts Committee reports on the timeliness of local audit. The government remains committed to establishing the Audit, Reporting and Governance Authority as system leader for local audit when Parliamentary time allows.

49. CIPFA LASAAC's strategic plan includes a workstream looking at long-term reforms to financial reporting based on the needs of accounts users. CIPFA are in the process of relaunching the Better Reporting Group to inform this work.

50. HM Treasury will be setting out in the first quarter of 2024 the outcome of the thematic review into the valuation of non-investment assets. CIPFA will continue to work with HM Treasury on how the changes apply to local bodies with the intention that they are introduced to the Code of Practice for Local Authority Accounting for 2025/26.

51. The FRC intends to publish its Local Audit Workforce Strategy during 2024, following a presentation to the Local Audit Liaison Committee. The Strategy will include both short-term and longer-term recommendations to increase the supply of suitably skilled auditors, including for further changes to Key Audit Partner requirements.

52. Closely linked to the Local Audit Workforce Strategy, the government has successfully procured the development of a Local Audit Qualification which will shortly be launched by CIPFA, opening the training route for experienced Responsible Individuals to become Key Audit Partners. In addition, CIPFA and the Local Government Association (LGA) are working on a parallel Workforce Strategy for local government finance teams.

### **Conclusion**

53. The measures proposed are an important step in restoring timely financial reporting and audit for local bodies. The government is grateful for the hard work and collaboration of system partners in developing these ambitious measures. All system partners are committed to continue to work closely together to, following the consultation, implement measures to clear the backlog of local audit opinions and develop the long-term reforms required to prevent a backlog arising in the future.

# Fareham Borough Council

## Audit Update

February 2024





Fareham Borough Council  
Civic Offices  
Civic Way  
Hampshire  
PO16 7A

27 February 2024

Dear Audit and Governance Committee Members

#### Audit Update

The purpose of this report is to provide the Audit and Governance Committee with an overview of the current status of the Council's audit status for 2022/23 and our plans for the 2023/24 year. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audits.

Yours faithfully,

Ben Lazarus

For and on behalf of Ernst & Young LLP

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02 Overview of our 2023/24 audit strategy



03 Audit Timeline



04 Audit Fees



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The “Terms of Appointment and further guidance (updated April 2018)” issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit and Governance Committee and management of Fareham Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee, and management of Fareham Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee, and management of Fareham Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





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# Progress Update – Financial Statements of the Council





# Context for the 2022/23 and 2023/24 audits

Context for the 2022/23 and 2023/24 audits – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

We issued our 2021/22 Audit Results Report in July 2023, with an unqualified opinion on the 2021/22 accounts and no significant weaknesses for VfM.

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited accounts by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.


Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- DLUHC has launched consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic accounts and for the financial years 2023/24 to 2027/28.
- The National Audit Office (NAO) has launched consultation on amending the Code of Audit Practice to :
  - Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
  - Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.
- The Chartered Institute of Public Finance and Accountancy (CIPFA) has launched a consultation on temporary changes to the accounting code for preparation of the accounts. The proposed temporary changes to the financial reporting framework have an impact on both how the accounts are prepared and our audit procedures necessary to gain assurance.

To allow for timely reset of the audit of the Council we have focused our resources on:

- Discharging our value for money reporting requirements for 2022/23, including bringing up to date all key risk areas (i.e. through to February 2024 as it stands). This is an area of work where there has always been clarity that a full scope audit, as completed in previous years, would still be required in 2022/23 even under any new regime. Please note this work also included a series of key financial statements procedures (for example, disclosure checklists). Our 2022/23 VfM Interim Report is included in the papers for today's (March) Audit and Governance Committee meeting. We will be required to issue a final Auditors Annual Report later in the year (including finalised VfM commentary) but this will be linked to the resolution and finalisation of the 22/23 financial statements opinion. See overleaf for separate update on this.
- Planning the 2023/24 audit to drive sustainable and on-time delivery for 2023/24 and beyond, as directed in the Ministerial statement.



# Context for the 2022/23 and 2023/24 audits

## Responsibilities of Council management and those charged with governance

We also note, we have been working across our wider local authority portfolio to bring as many other audits up to 2021/22 completion, and 2022/23 VfM and Pension Fund completion as possible. As a result of the likely backstop date and our decision to prioritise 2023/24 work to allow for a reset we plan to disclaim the opinion on the Council's 2022/23 accounts. Our proposed disclaimer of the Council's 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase.

The changes proposed by the consultations therefore have a significant on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit and Governance Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer.

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Council's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Council resources are readily available to support the audit process, within agreed deadlines. The Audit and Governance Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Based on our historic experience to date the Council has a good track record of producing the financial statements on time, producing good quality working papers and supporting the audit process. We will seek to be clear on this in any reporting of our proposed disclaimer of the Council's 2022/23 financial statements.

On the subsequent pages we have provided an overview of our 2023/24 audit strategy. We also include a timetable of communications and deliverables in section 3 which outlines our timeline for completing our planning procedures in February/March and presenting our Audit Planning Report to the July Audit and Governance Committee.



BOARDROOM



# 02 Overview of our 2023/24 audit strategy



# Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters we expect to include within our Audit Planning Report. It seeks to provide the Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year. The risks and areas of focus remain subject to change since we have not yet commenced our planning procedures at the time of writing this report.

## Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk/ Significant risk	No change in risk or focus	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.  We have assessed that this risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of investment property - valued under Existing Use Value (EUV) / Fair Value (FV)	Significant risk	No change in risk or focus	The valuation of investment properties represent material figures within the Council's financial statements. The valuation of those assets valued on an EUV or FV basis is reliant upon expert valuations based on information provided by the Council, which includes a number of judgements and assumptions.  Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.




# Overview of our 2023/24 audit strategy

The following ‘dashboard’ summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year. The risks and areas of focus remain subject to change since we have not yet commenced our planning procedures at the time of writing this report.

## Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of land and buildings in property, plant and equipment (PPE) under Depreciated Replacement Cost (DRC)	Inherent risk	No change in risk or focus	The value of land and buildings in PPE under DRC represent significant balances in the Council’s accounts and are subject to valuation changes and impairment reviews. Management is required to make a lesser degree of material judgemental inputs and apply estimation techniques which are required to calculate these balances held in the balance sheet. Although there is a risk for land and buildings under DRC to be misstated due to the specialised nature of these assets and insufficient availability of market-based evidence to assist the valuation, these assets are inherently not subject to material uncertainty arising due to market conditions.
Valuation of land and buildings – valued under Existing Use Value (EUV) / Fair Value (FV)	Inherent risk	No change in risk or focus	The valuation of land and buildings represent material figures within the Council’s financial statements. The valuation of those assets valued on an EUV or FV basis is reliant upon expert valuations based on information provided by the Council, which includes a number of judgements and assumptions.  Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.  Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of the management experts and assumptions underlying fair value estimates.
NNDR Appeals provision	Inherent risk	No change in risk or focus	The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements. In prior years we have identified errors above our audit differences threshold.



# Overview of our 2023/24 audit strategy

## Audit scope

We plan to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". Therefore to the extent any of these or any other risks are relevant in the context of the Council's audit, and we will continue to discuss these with management as to the impact on the scale fee.

# Audit process and strategy

## Audit scope (cont'd)

Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

The changes proposed by the consultations are likely to have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit and Governance Committee as the audit progresses and our assessment on the required scope and nature of procedures we will undertake becomes clearer. As examples:

- ▶ Where prior year audit opinions are modified work will be required to gain assurance, where possible, on opening balances over the period of the recovery phase (phase 2). Where we are unable to gain assurance over opening balances, we anticipate that this may lead to limitation of scope of our audit over those balances.
- ▶ Where prior year audit opinions are modified, and particularly where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase.
- ▶ Changes to the Code of Audit Practice on Local Authority Accounting will potentially impact on our assessment of audit risk generally, risks associated with significant accounting estimates, such as the valuation of operational property, plant and equipment and the related need to rely on management's and auditor's specialists.

# Overview of our 2023/24 audit strategy

## Value for Money

We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to prepare a commentary under three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council's arrangements against three reporting criteria:

- ▶ Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- ▶ Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
- ▶ Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

The commentary on the Council's value for money arrangements will be included in the Auditor's Annual Report.

## Key Audit Partner and senior audit team



Ben Lazarus - Partner  
Ben will continue in his role as Partner for the 2023/24 year.



Tom Wilkins - Senior Manager  
Tom has experience in the delivery of both local District Councils and upper tier local authorities and will be the Senior Manager for the Fareham Borough Council audit for 2023/24.





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## 03 Audit Timeline



# Audit Timeline

## Timeline

Delivery to our proposed timeline is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies.

See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>.

In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- assign responsibilities clearly to staff with the appropriate expertise and experience;
- provide necessary resources to enable delivery of the plan;
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.



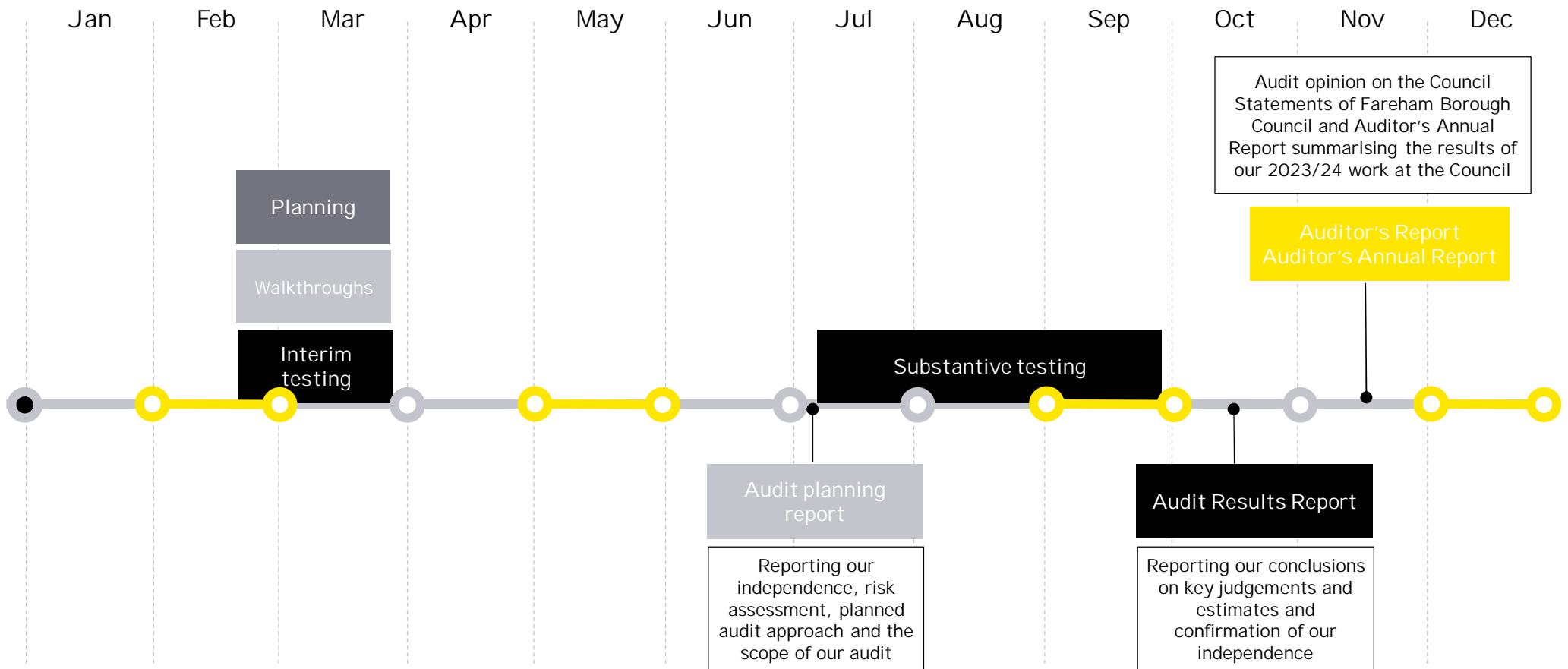
# Timetable of communication and deliverables

## Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Audit and Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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# 04 Audit Fees



# Audit Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council;
- ▶ The Council has an effective control environment; and
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full section 3 of this report.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

	2023/24	2022/23	2021/22
	£	£	£
Total Fee – Code Work	142,159 Note 2	46,137 Note 1	37,137
Scale fee adjustment	TBC	TBC	40,109
Total audit fees	TBC	TBC	77,246

All fees exclude VAT

(1) The 2022/23 audit fee will be adjusted to reflect the work completed in respect of our Value for Money Conclusion and the disclaimed opinion.

(2) The revision to ISA (UK) 315 will impact on our scope and approach, and require us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements. Whilst an element of ISA 315 related fee was included in the PSAA retender, the requirements around ISA 315 have evolved and expanded since then. We therefore expect to charge additional fee for this.

The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:

- Consideration of correspondence from the public and formal objections.
- New accounting standards, for example full adoption or additional disclosures in respect of IFRS 16.
- Non-compliance with law and regulation with an impact on the financial statements.
- VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
- The need to exercise auditor statutory powers.
- Prior period adjustments.
- Modified financial statement opinions



# FAREHAM

## BOROUGH COUNCIL

### **Report to Audit and Governance Committee**

**Date:** 11 March 2024

**Report of:** Assistant Director (Democracy)

**Subject:** Member Training Programme

#### **SUMMARY**

The Council Elected Member Training Programme has been refreshed to identify training sessions and opportunities to support and benefit elected members carry out their role effectively.

#### **RECOMMENDATION**

It is recommended that the Audit and Governance Committee:

- (a) notes the content of this report;
- (b) recommends any additional training to be added to the draft Programme at Appendix A; and
- (c) approves the draft Elected Member Training Programme at Appendix A.

## **INTRODUCTION**

1. As part of the Council Strategic Framework, the Council's Corporate Strategy outlines our visions, values and priorities for the Council.
2. It is important that the Council supports Elected Members with a programme of training, to enhance their skills and knowledge enabling them to carry out their role effectively to work towards these priorities.
3. It should be noted that training does not include Member Briefings.
4. The Council has refreshed its training programme for 2024/25 and proposes it for this municipal year, and as a basis for training going forward.

## **REFRESHING THE PROGRAMME**

5. When considering the Programme, the past modules were reviewed to look at up-take and the merit of these within the programme. These were all considered to be beneficial to Councillors, but it was recognised that some fell under the same theme, so the draft Programme has been refreshed to reflect those more appropriately.
6. The majority of training has been offered to new Councillors and it is recognised that with an 'all-out' election taking place this year, this was an opportunity to reconsider how the programme looked.

## **CAPTURING ATTENDEES**

7. For existing Councillors who are re-elected in May 2024, it is very likely that the information contained within our new councillor training sessions will never have been delivered to that cohort of Councillors, at all, or for many years.
8. Therefore, to avoid missing crucial changes to legislation and processes, all returning Councillors elected at the May 2024 elections are highly recommended and encouraged to attend all new Councillor training sessions, as well as other training offered.
9. In recognition of the short timeframe between the election and the first training session, a document will be circulated to all Candidates for the May 2024 elections. The purpose of this document is to provide those Candidates with key training and meeting dates within the first month, by way of advance notice. This information is also provided to winning Candidates via the Member Induction Booklet distributed on Election night.

## **ASSESSING THE PROGRAMME**

10. Acknowledging that the Council may lose Councillors who bring with them a wealth of experience, invitations are being extended to all Councillors asking them to complete a survey in respect of their experiences of training.
11. Councillors may also opt to speak to the Assistant Director (Democracy) instead of/alongside the survey to give a fuller overview of their training experiences.



12. Officers who have delivered training in the past will also be surveyed to gauge their views on that training and were asked to make suggestions for the future.
13. New topics have been suggested within the new Programme and these reflect changes to legislation in some areas as well as large projects being undertaken by the Council.

### **TRAINING PROGRAMME**

14. New sessions included within the programme are:

“Introduction to the Chief Executive and Senior Leadership Team”: this will give an opportunity to deliver an overview of Portfolios, the Corporate Strategy, priorities and objectives.

“Skills to navigate being a Councillor”: this all-day session will include an overview of the introduction of the Local Government and Social Care Ombudsman and Housing Ombudsman Joint Complaint Handling Code.

“Looking After Yourself and Others-the Council’s approach to the environment”.

“Looking After Yourself and Others-IT awareness and support”.

15. Some of the previously offered sessions have been amended to better reflect the differing aspect of services.
16. Councillors may also make suggestions for training throughout the municipal year where it is identified it may assist them in their role.

### **COST**

17. The majority of training is delivered in-house by Council Officers, and some of the training is delivered via the Southampton Legal Partnership, which is costed to the Council.
18. With the proposed training programme as it stands at Appendix A, additional costs over-and-above those incurred previously would come from Chairman and Vice-Chairman training where this is delivered externally. Whilst this has been offered previously, with the potential for new Councillors, it is envisaged this may be delivered to more Councillors than previously.

### **RISK ASSESSMENT**

19. Recognising that some Councillors may not be re-elected, there is a risk from losing experienced and knowledgeable Councillors, it is hoped the Member survey, together with input from the Audit and Governance Committee, will result in capturing some feedback from Councillors as to the previous delivery of training within the Council and understanding what Members found useful to their role.
20. Without a training programme in place for elected members, they will not be in possession of important information to help and support them as a Councillor.

As some of the training includes legal responsibilities for Councillors, it is important training sessions are attended to give relevant, key and up-to-date information.

## **CONCLUSION**

21. Members benefit from training to help them carry out their role effectively, and to have a broader understanding of legal requirements and implications.
22. If approved, the Council's refreshed programme will give Members a framework for training to be delivered.

### **Appendix A:**

Draft Member Training Programme

### **Background Papers:**

Election Night Induction booklet May and October 2022.

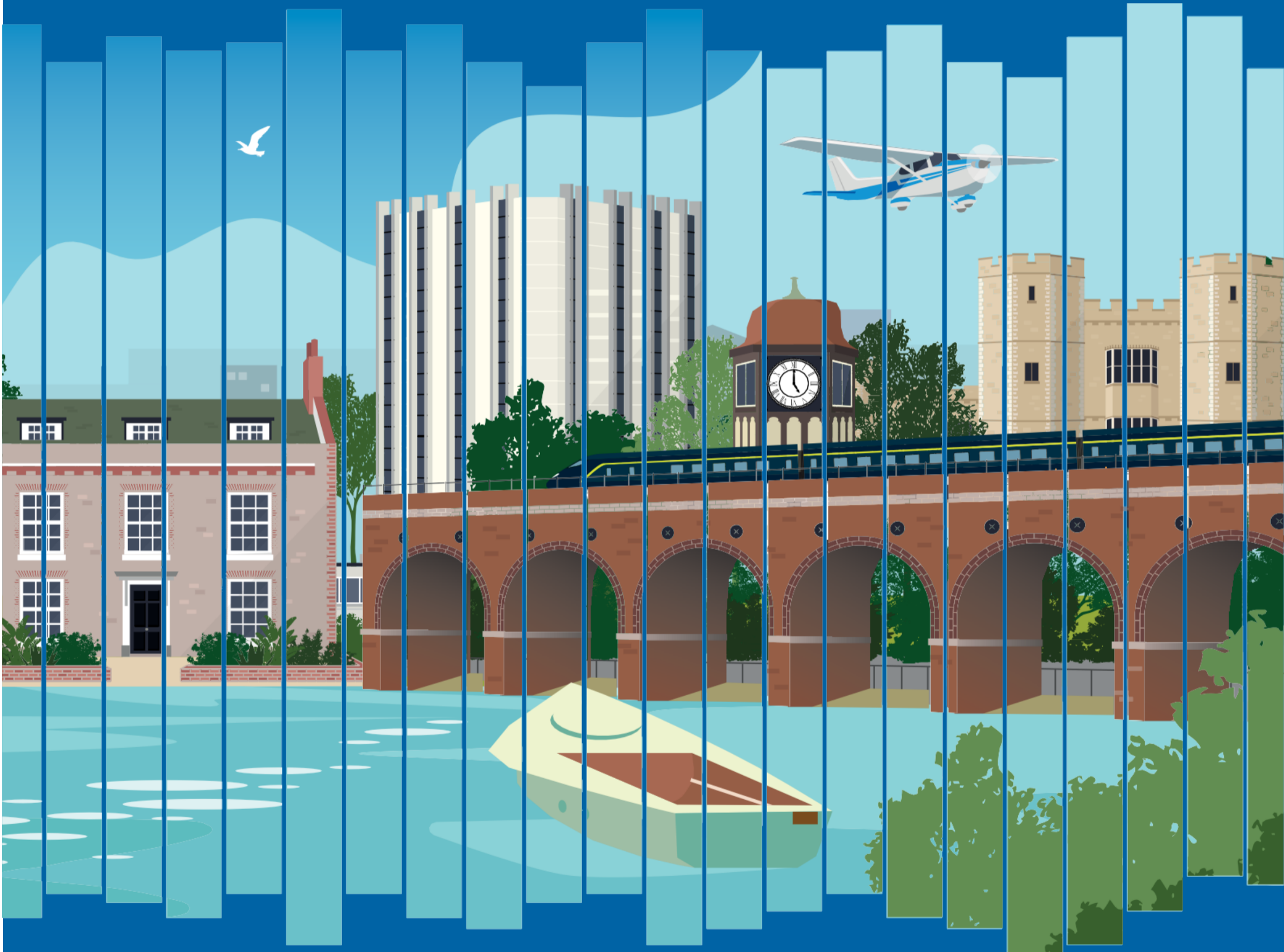
### **Reference Papers:**

Key Dates for Election Candidates 2024

### **Enquiries:**

For further information on this report please contact Samantha Wightman 01329 824594.

# MEMBER TRAINING PROGRAMME 2024/25



**FAREHAM**  
BOROUGH COUNCIL

## Introduction

As part of the Council's Strategic Framework, our Corporate Strategy outlines our vision, values, and priorities for the Council.

It is important that Elected Members are supported with a programme of training to enhance their skills and knowledge enabling them to carry out their role, which can sometimes be challenging, effectively. This support will also help the Council work towards these priorities by empowering knowledge of Councillors, often as decision makers and well as Ward Councillors.

The Programme below sets out the modules for this municipal year. Other training will be identified and added to the programme and Councillors are invited to identify any further external training relevant to their role and speak to Democratic Services as to the process for agreeing and approval of any requests.

Please note that a separate schedule of Member Briefings is also carried out during the municipal year.

Module	Audience	Topic	Date
<b>Induction</b>	Newly Elected Councillors (returning and new)	Welcome and introduction to the Council and opportunity to return paperwork and ask questions; brief overview of Annual Council, your role and procedure; media awareness and IT welcome and introduction.	08 May 2024  (Within 7-10 days of election)
<b>Skills to navigating being a Councillor</b>	Newly Elected Councillors (returning and new)	Code of Conduct; registering interests; Council's Constitution; financial regulations; committee structure and meeting procedures, motions and petitions. Freedom of Information, Data Protection and Corporate complaints.	24 May 2024  (Within 3 weeks of Election)
<b>Introduction to Senior Leadership Team</b>	All Councillors	Welcome briefing with the senior leadership team: to include Corporate Strategy, Priorities and Objectives. (new)	06 June 2024  (Within 3 weeks of Election)

<b>Committees and Scrutiny Panels</b>	Planning Committee members and deputies	Planning Committee: Responsibilities and legalities  (Mandatory for those appointed to Planning Committee)	After Annual Council and before first PC meeting  TBC via invitation
	All Chairman and Vice Chairman	Chairing skills	May/June 2024  TBC via invitation
	Licensing Committee members and deputies	Being Appointed to Licensing Committee and Licensing Panels: Responsibilities	May/June  TBC via invitation
	Audit and Governance members and deputies	Audit and Governance: Responsibilities and legalities	18 July 2024
	Scrutiny Panels	Purpose of Scrutiny Panels	At the first meeting of the municipal year for each individual Panel
<b>Looking after yourselves and others</b>	All Councillors	Diversity, equality, and inclusion, Prevent and Safeguarding (mandatory)	June/July TBC via invitation

<b>Looking after yourselves and others: Debate, not hate</b>	All Councillors	Councillor Personal Safety and Online safety	July/August TBC via invitation
		Meeting etiquette and Chamber rules	May/June TBC via invitation
<b>Looking after yourselves and others: The Environment</b>	All Councillors	The Council's approach to the environment	June/July TBC via invitation
<b>Looking after yourselves and others: IT Awareness and Support</b>	All Councillors	IT, cyber and using Council systems	June TBC via invitation
<b>Looking after yourselves and others: Health and Safety</b>	All Councillors	Guidance to support individual Councillors obligations for health and safety	TBC via invitation



<b>Broader training topics</b>	Planning Committee members and deputies	Probity in Planning: Responsive and Inclusive and Innovative Council	TBC via invitation
	All Councillors	Understanding Council finances: Responsive and Inclusive and Innovative Council	October TBC via invitation
	All Councillors	Waste Management and Street Cleansing: An operational overview of Streetscene services	TBC via invitation
		Waste Management: Simpler Recycling	TBC via invitation
		Affordable Housing: Strategic aims for providing housing choices	TBC via invitation
		Affordable Housing: Operational overview	TBC via invitation
		Enforcement: Its role in achieving strong, safe and healthy communities	TBC via invitation



# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 11 March 2024

**Report of:** Chief Executive Officer

**Subject:** TREASURY MANAGEMENT STRATEGY

#### SUMMARY

Regulations require the Council to prepare and formally approve an annual Treasury Management Strategy. The document for 2024/25, attached as Appendix A, was endorsed by the Executive on 5 February 2024 and submitted to Full Council for approval on 23 February 2024.

Areas of note are:

- In the past 12 months, the Council's investment balance has ranged between £18 million and £38 million; lower levels are expected in the forthcoming year due to capital programme expenditure (paragraph 7).
- The Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income (paragraph 16).
- Borrowing levels are expected to be £74.3 million at the end of 2024/25 (paragraph 32).
- The Council has previously raised all of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield (paragraph 40)
- The economic and interest rate forecast by the Council's treasury advisors has been updated as at January 2024 (paragraph 58 and Annex 1).

## **RECOMMENDATION**

It is RECOMMENDED that the Audit and Governance Committee note the Treasury Management Strategy and Prudential Indicators for 2024/25, attached as Appendix A to this report.

**Appendices: Appendix A:** Treasury Management Strategy and Investment Strategy 2024/25

**Background Papers:** None

**Reference Papers:**

Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services 2021

CIPFA The Prudential Code 2021

Statutory Guidance on Local Government Investments issued under section 15(1)(a) of the Local Government Act 2003 from the Ministry of Housing, Communities and Local Government (MHCLG)

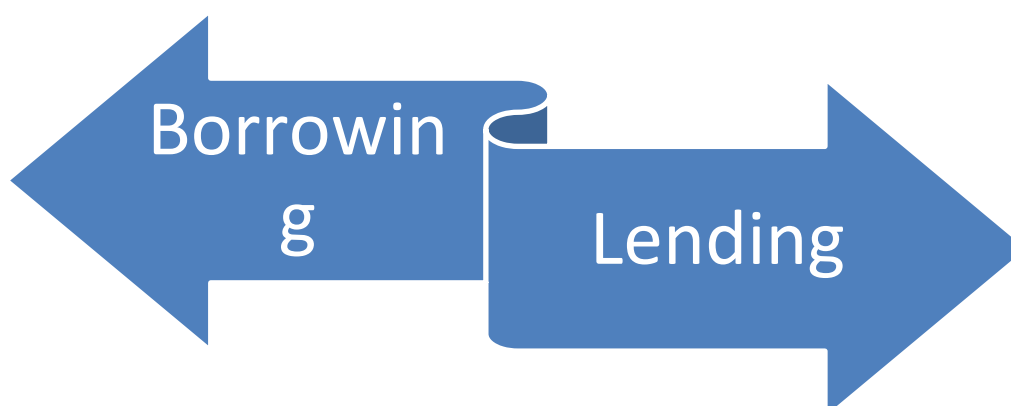
Template for Treasury Management Strategy and Investment Strategy 2024/25 provided by Arlingclose (the Council's current Treasury Advisers)

**Enquiries:**

For further information on this report please contact Caroline Hancock 01329 824589

**FAREHAM**  
BOROUGH COUNCIL

**TREASURY MANAGEMENT  
STRATEGY  
AND  
INVESTMENT STRATEGY  
2024/25**







# INTRODUCTION

## WHAT IS TREASURY MANAGEMENT?

1. Treasury Management is defined as:

*The management of the organisation's cash flows, its banking, money market and capital market transactions;*

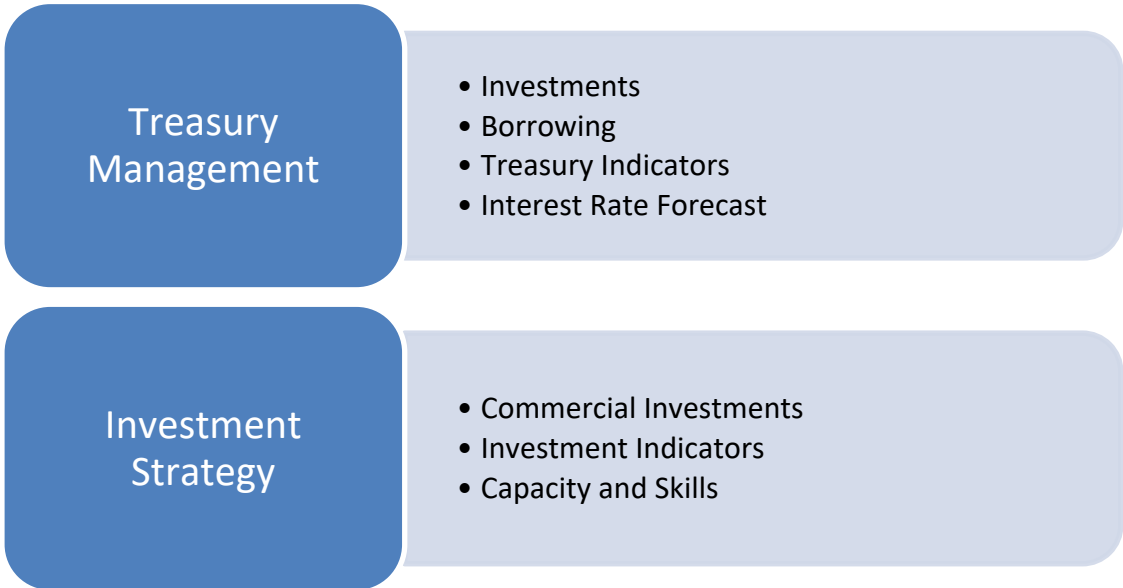
*the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.*

2. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. There are two aspects to the treasury management service:

- a) To ensure the cash flow is adequately planned, with **cash being available when it is needed**. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- b) To ensure the cash flow meets the Council's **capital plans**. These capital plans provide a guide to the **borrowing need** of the Council. Essentially this is the longer term cash flow planning to ensure that the Council can meet its capital spending requirements. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

## CONTENT OF THE TREASURY MANAGEMENT AND INVESTMENT STRATEGIES

3. These strategies set out the expected approach to treasury management and investment activities for 2024/25. It covers two main areas:



4. The content of the Strategies is designed to cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

## REPORTING REQUIREMENTS

5. The Council receives and approves three main reports each year in relation to Treasury Management, which incorporate a variety of policies, estimates and actuals. The three reports are:



6. The Executive Committee is responsible for the implementation and monitoring of these reports whilst the Audit and Governance Committee is responsible for the effective scrutiny of the treasury management strategy and policies.

# TREASURY MANAGEMENT STRATEGY

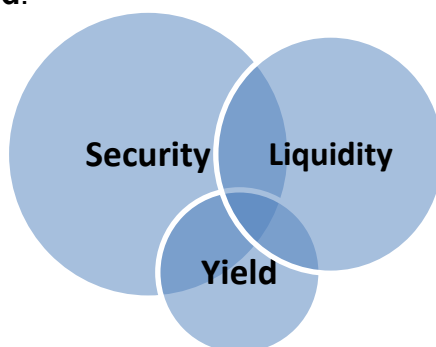
## INVESTMENTS

### Current Portfolio Position

7. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £18 million and £38 million, lower levels are expected in the forthcoming year due to capital programme expenditure.

### Treasury Investment Strategy

8. The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.



9. The Council's objective when investing money is to strike an appropriate balance between **risk and return**, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
10. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.
11. The Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.
12. Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's **business model** for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

### Approved Counterparties

13. The Council may invest its surplus funds with any of the counterparty types in the

table below, subject to the limits shown.

Sector	Time Limit	Counterparty Limit	Sector Limit
UK Government	50 years	Unlimited	n/a
Local authorities and other government entities	25 years	£4m	Unlimited
Secured investments*	25 years	£4m	Unlimited
Banks (unsecured)*	13 months	£2m	Unlimited
Building Societies (unsecured)*	13 months	£2m	£4m
Money market funds*	n/a	£4m	Unlimited
Strategic pooled funds	n/a	£5m	£20m

14. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published **long-term credit rating is no lower than A-**. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
15. For entities without published credit ratings, investments may be either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £2 million per counterparty as part of a diversified pool.
16. Summary of counterparty types:
  - a) **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
  - b) **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
  - c) **Banks and Building Societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.



- d) **Money Market Funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
- e) **Strategic Pooled Funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
17. The Council may also invest its surplus funds in corporates (loans, bonds and commercial paper issued by companies other than banks), registered providers (loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations) and real estate investment trusts, subject to meeting the minimum credit rating criteria and time limits recommended by the Council's treasury advisers.

## **Operational Bank Accounts**

18. The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £4 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

## **Risk Assessment and Credit Ratings**

19. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
  - any existing investments that can be recalled or sold at no cost will be, and
  - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
20. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not

apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

## Other Information on the Security of Investments

21. The Council understands that credit ratings are good, but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above credit rating criteria.
22. Reputational aspects: The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.
23. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
24. The following **internal measures** are also in place:
  - Investment and borrowing decisions formally recorded and endorsed using a Counterparty Decision Document.
  - Monthly officer reviews of the investment and borrowing portfolio and quarterly reviews with the Chief Executive Officer.

## Investment Limits

25. The Council's revenue reserves available to cover investment losses are forecast to be £5 million on 31st March 2024. In order to minimise risk, in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be **£5 million**. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
26. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as in the table below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	<b>Cash limit</b>
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£4m per country

## Liquidity Management

27. The Council uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.
28. The Council will spread its liquid cash over at least **four providers** (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

## Environmental, Social and Governance Policy

29. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.
30. The Council will seek to move towards investments that improve the environment, bring wider social benefits, and are with organisations with good governance.
31. The Council will give weight to the environmental, social and governance elements of credit ratings in making investment decisions, provided that the overall risk profile of the investment portfolio (including liquidity risk) is not compromised, and that decisions remain consistent with responsible financial management and stewardship.

## BORROWING

### Current Portfolio Position

32. The Council's borrowing position at 31 March 2023, with forward projections are summarised below.

<b>£'000</b>	<b>2023/24 Revised</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
Debt at 1 April	61,300	74,300	74,300	72,300	70,300
Expected change in debt	13,000	0	(2,000)	(2,000)	(2,000)
<b>Gross Debt at 31 March</b>	<b>74,300</b>	<b>74,300</b>	<b>72,300</b>	<b>70,300</b>	<b>68,300</b>

33. Debt at 31 March 2024 is projected to be higher than originally estimated due to

borrowing short-term externally to fund the capital programme.

## **Borrowing Strategy**

34. The Council's main objective when borrowing money is to strike an appropriately low risk balance between **securing low interest costs** and achieving **certainty of those costs** over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
35. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
36. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium term to either **use internal resources**, or to **borrow short-term** loans instead.
37. By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and **reduce overall treasury risk**. The benefits of internal borrowing or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.
38. Our treasury advisers will assist the Council with this '**cost of carry**' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
39. The Council has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.
40. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield.
41. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
42. In addition, the Council may borrow further short-term loans to cover unexpected cash flow shortages.

## **Sources of Borrowing**

43. The approved sources of long-term and short-term borrowing are:
  - HM Treasury's PWLB lending facility (formerly the Public Works Loan Board).
  - UK Infrastructure Bank Ltd

- Any institution approved for investments.
  - Any other bank or building society authorised to operate in the UK.
  - Any other UK public sector body.
  - UK public and private sector pension funds (except the Hampshire County Council Pension Fund).
  - Capital market bond investors.
  - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.
44. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- Leasing
  - Hire purchase
  - Private Finance Initiative
  - Sale and leaseback
  - Similar asset based finance
45. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.
46. **Short-Term and Variable Rate Loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.
47. **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

## TREASURY MANAGEMENT PRUDENTIAL INDICATORS

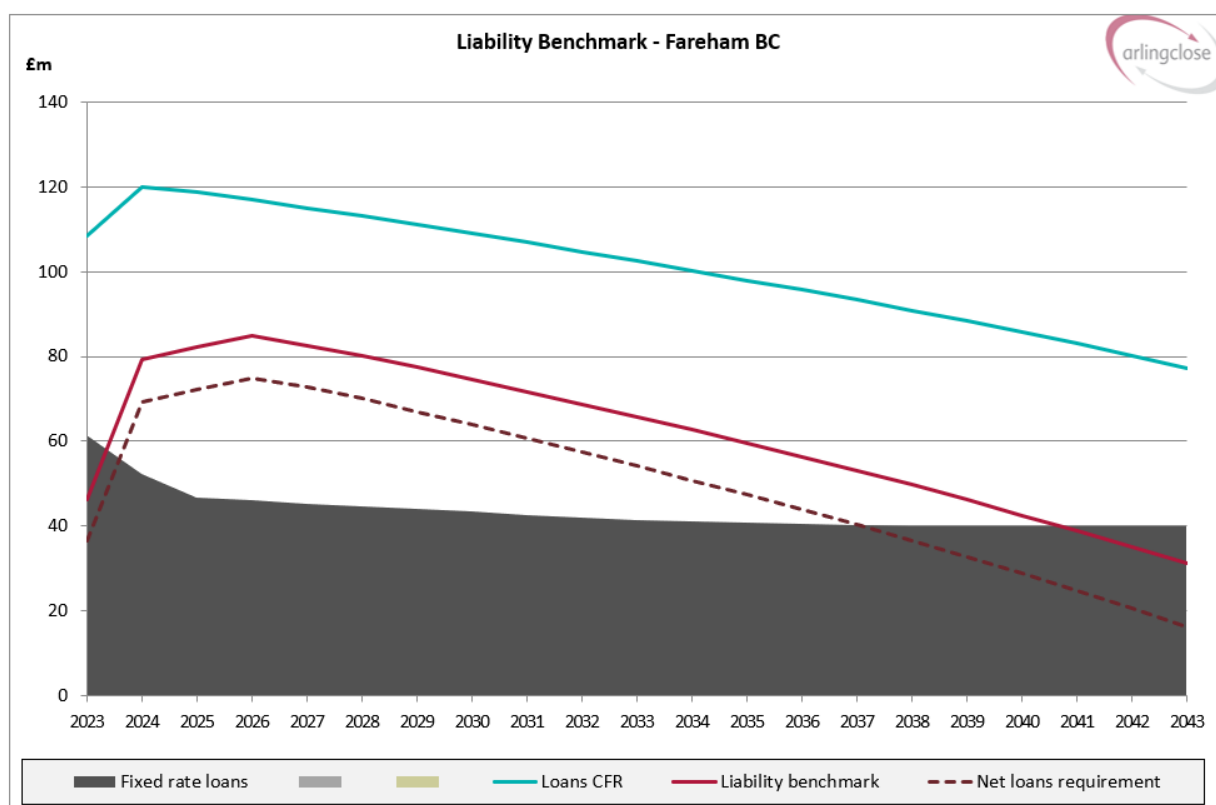
48. The Council measures and manages its exposures to treasury management risks using the following three treasury management indicators.
49. *Treasury Management Prudential Indicator 1 – Liability Benchmark:* To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.
50. The liability benchmark is an important tool to help establish whether the Council



is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

£'000	31/03/23 Actual	31/03/24 Estimate	31/03/25 Estimate	31/03/26 Estimate	31/03/27 Estimate
Capital Financing Requirement	108,246	121,826	120,368	116,684	112,785
Less: Balance sheet resources	(72,000)	(50,900)	(46,500)	(42,000)	(42,400)
<b>Net loans requirement</b>	<b>36,246</b>	<b>70,926</b>	<b>73,868</b>	<b>74,684</b>	<b>70,385</b>
Plus: Liquidity allowance	10,000	10,000	10,000	10,000	10,000
<b>Liability benchmark</b>	<b>46,246</b>	<b>80,926</b>	<b>83,868</b>	<b>84,684</b>	<b>80,385</b>

51. The long-term liability benchmark is shown in the chart below together with the maturity profile of the Council's existing borrowing:



52. If cash flows occur as forecast, the Council's level of existing borrowing remains below the liability benchmark for the next 17-18 years. This indicates a need for further external borrowing over this period, peaking at approximately an additional £39m by 2026 and then reducing over time.
53. *Treasury Management Prudential Indicator 2 – Long-term treasury management investments:* The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

£'000	2023/24 Revised	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Limit on principal invested beyond year end	12,000	12,000	12,000	12,000	12,000

54. *Treasury Management Prudential Indicator 3 - Maturity structure of borrowing*: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Maturity structure of borrowing	Upper Limit %	Lower Limit %
- Loans maturing within 1 year	50	0
- Loans maturing within 1 - 2 years	50	0
- Loans maturing within 2 - 5 years	50	0
- Loans maturing within 5 - 10 years	50	0
- Loans maturing in over 10 years	100	100

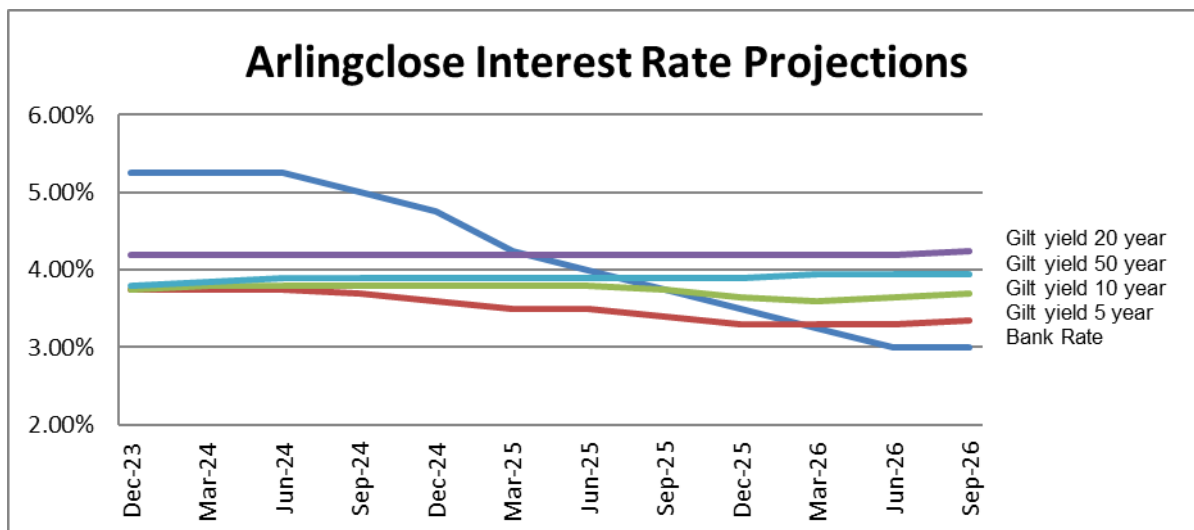
55. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.
56. *Treasury Management Prudential Indicator 4 - Housing Revenue Account (HRA) ratios*: As a result of the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on **£49.3 million** of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	2023/24 Revised	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA debt £'000	49,268	49,268	49,268	49,268	40,000
HRA revenues £'000	14,392	15,286	16,258	17,008	17,452
Number of HRA dwellings	2,410	2,408	2,455	2,443	2,431
Ratio of debt to revenues	3.42:1	3.22:1	3.03:1	2.90:1	2.29:1
Debt per dwelling £	20,445	20,462	20,070	20,169	16,683
Debt repayment fund £'000	6,840	7,382	8,403	9,543	10,683

57. The HRA is due to repay borrowing from the General Fund of £9.268 million in 2027/28.

## INTEREST RATE FORECAST

58. The Council's treasury management adviser, Arlingclose, assist the Council to formulate a view on interest rates. The latest detailed economic and interest rate forecast provided by Arlingclose is attached at Annex 1.
59. The following graph and commentary gives the Arlingclose's central view on interest rates.



60. Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
61. Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

## Other Items

62. The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.
63. **Policy on Apportioning Interest to the HRA:** On 28 March 2012, the Council borrowed £40 million from the Public Works Loan Board (PWLB) to buy itself out of the HRA subsidy System. The monies were borrowed by the General Fund on behalf of the HRA. The interest on these loans is charged to the HRA on a half-yearly basis at the rate charged by PWLB. A further £9.268 million was lent by the General Fund to the HRA to complete the buyout. Interest on this element is charged at the average weighted rate of the PWLB loans.
64. The unfunded HRA capital financing requirement is also charged to the HRA at the average weighted rate of the PWLB loans.
65. The General Fund credits the HRA with interest earned on HRA credit balances calculated on the reserve balances at year end. The rate used is the weighted interest rate on General Fund investments and cash balances.
66. **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and

small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

## Financial Implications

67. The budget for net interest received in 2024/25 for the General Fund is £468,400 and the budget for net interest paid in 2024/25 for the HRA is £1,650,400. If actual levels of investments and borrowing, and actual interest rates differ from that forecast, performance against budget will be correspondingly different.

## Other Options Considered

68. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

# INVESTMENT STRATEGY

- 69. The Council invests its money for three broad purposes:
  - because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
  - to support local public services by lending to or buying shares in other organisations (**service investments**), and
  - to earn investment income (known as **commercial investments** where this is the main purpose).
- 70. This investment strategy meets the requirements of statutory guidance issued by the Government in January 2018 and focuses on the third of these categories.
- 71. The Council does not currently have any service investments.

## COMMERCIAL INVESTMENTS

- 72. The Council invests in local and some regional UK commercial property with the intention of making a profit that will be spent on local public services.
- 73. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased commercial investment properties currently valued at **£35.5 million** and expected to generate rental income of £2.3 million during 2023/24.

Property Type	Current Value £'000
Retail	21,785
Commercial (Industrial)	11,740
Other (Healthcare)	1,960
<b>Total</b>	<b>35,485</b>

- 74. The Council’s total Commercial property portfolio, shown below, is valued at **£70 million** and includes Faretec and industrial estates at Palmerston Business Park and Newgate Lane. The Council purchased the leasehold of Fareham Shopping Centre at the end of September 2023. The table includes the freehold value only.

Property Type	Current Value £'000
Retail	33,790
Commercial	25,245
Other	4,109
Office	5,370
Leisure	1,492
<b>Total</b>	<b>70,006</b>

75. A fair value assessment of the Council's more recent commercial property purchases has been made within the past twelve months, and the underlying assets provide security for capital investment.
76. The Council assesses the risk of loss before entering into and whilst holding property investments. These risks are managed by ensuring:
- funds available for new purchases are disaggregated to limit the overall impact that any single investment would have on the Council's finances;
  - there is a mix of property types in the portfolio e.g. retail, industrial, etc.;
  - new purchases are only considered with existing tenants of "high quality" and sufficiently long tenancy term;
  - appropriate checks are carried out to ascertain the tenant's reliability;
  - other "due diligence" is undertaken to protect the Council's investment as far as possible such as checks on planning conditions, land contamination issues and planning policy issues.

## Proportionality

77. The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Strategy.

£'000	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Gross service expenditure	46,245	51,190	52,945	52,440	52,742	52,893
Investment income	5,688	5,063	5,702	5,705	5,650	5,440
<b>Proportion</b>	<b>12.3%</b>	<b>9.9%</b>	<b>10.8%</b>	<b>10.9%</b>	<b>10.7%</b>	<b>10.3%</b>

## INVESTMENT INDICATORS

78. The Council has set the following three investment indicators to assess the Council's total risk exposure as a result of its investment decisions.
79. *Investment Indicator 1 - Total risk exposure:* The first indicator shows the Council's total exposure to potential investment losses.

£'000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate
Treasury Management Investments	24,832	15,000	15,000
Commercial Investments	70,006	82,506	82,506
<b>Total</b>	<b>94,838</b>	<b>97,506</b>	<b>97,506</b>

80. *Investment Indicator 2 - How investments are funded:* Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.



<b>£'000</b>	<b>2022/23 Actual</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>
Treasury Management Investments	0	0	0
Commercial Investments	29,479	41,965	40,951
<b>Total</b>	<b>29,479</b>	<b>41,965</b>	<b>40,951</b>

81. *Investment Indicator 3 - Rate of return received:* This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested.

	<b>2022/23 Actual</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>
Treasury Management Investments	4.4%	7.3%	7.3%
Commercial Investments	5.3%	4.6%	4.8%
<b>Total</b>	<b>5.1%</b>	<b>5.1%</b>	<b>5.3%</b>

## **CAPACITY AND SKILLS**

### **Training**

82. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.
83. Treasury management officers regularly attend training courses, seminars and conferences provided by the Council's treasury management advisers and CIPFA.
84. Property services officers also regularly attend training courses, seminars and conferences provided RICS (Royal Institution of Chartered Surveyors) accredited/approved providers.

### **Use of Treasury Management Consultants**

85. The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues.
86. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
87. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

## ARLINGCLOSE ECONOMIC AND INTEREST RATE FORECAST

### Economic Background – January 2024

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with upside risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth has remained strong but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023. US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.4% in November 2023. Economic growth has been weak, and GDP contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has increased rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

### **Credit outlook:**

Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

### **Underlying assumptions:**

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the

more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.

- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium-term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

## **Forecast:**

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.



# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 11 March 2024

**Report of:** Assistant Director (Finance and ICT)

**Subject:** ANNUAL REVIEW OF THE AUDIT AND GOVERNANCE  
COMMITTEE - DRAFT

#### SUMMARY

This report seeks to provide Members of the Audit and Governance Committee with an opportunity to review its activity during this municipal year.

The purpose of the review is to summarise the work carried out by the Committee against its functions as set out in the Constitution and to provide evidence that the Committee has carried out its role effectively.

The comments from the Committee will allow Officers to compile a final report that will be submitted to Council for endorsement.

#### RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee: -

- a) consider the contents of the annual review; and
- b) submit a final version of the report to Council.



## **INTRODUCTION**

1. The Audit and Governance Committee is a key component of Fareham Borough Council's corporate governance framework. It provides an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role gives greater confidence to those charge with governance that those arrangements are effective.
2. This annual report aims to summarise how the Audit and Governance Committee has performed its functions during 2023/24.

## **COMMITTEE CONSTITUTION**

3. The Audit and Governance Committee is made up of seven elected Members, appointed at Annual Council in May 2023. All four of the scheduled meetings for the 2023/24 municipal year were held in person at the Civic Offices in Fareham and were all quorate.
4. Members were supported at each meeting by relevant Officers, including the Council's Monitoring Officer and Section 151 Officer and where appropriate the external auditors Ernst and Young LLP attended to present their findings.

## **DELIVERY OF WORK PROGRAMME**

5. The Committees work programme for 2023/24 was agreed by Council on the 20 April 2023. At each meeting changes to the original work programme were reported to the Committee via the Monitoring Officer report, which is a standard agenda item at each meeting.
6. Appendix A provides details of those items brought to the Committee in this municipal year and also provides details of which items will be considered in 2024/25.
7. The work programme for 2023/24 was delivered with the exception of:
  - i. Anti-Bribery Policy Update (now to come in November 2024)
  - ii. Internal Audit Strategy Update (delayed giving the new Chief Internal Auditor time to consider)
  - iii. External Audit Results Report (awaiting national consultation on approach for 2022/23 audit)

No additional items were delivered as part of the work programme in this municipal year.

## **COMMITTEE REQUESTS**

8. There were two occasions when Officers were requested to gather a more comprehensive response for Members outside of the meetings to widen assurances in these areas as follows:
  - i. Members enquired about the Pension Liability Statement within the Audit

Report asking if they are able to gain better viability and understanding of the Hampshire Pension Scheme (September 2023)

- ii. Members asked for more information pertaining to the Council's cyber liability insurance cover (November 2023)

The information requested by members was delivered in the year.

### **COVERAGE OF FUNCTIONS**

9. The Audit and Governance Committee functions are set in the Councils Constitution in Part Two – Chapter 8 of the Council's Constitution. Appendix A summarises the Committees functions and provides details of the reports brought to the Committee within each function area.
10. The Committee functions are reviewed every three years and aims to align with the latest national guidelines.
11. Appendix A also includes information on the frequency of reporting of each item aiming to provide the Committee with an oversight of how it has performed against the functions.

### **TRAINING**

12. At the 24 September 2023 meeting, Members of the Committee requested further information to explain the Hampshire Pension Scheme following discussions about the Pension Liability Statement contained within the External Audit – Annual Report.
13. Officers suggested a training session on the Pension Fund which was held on the 27 November 2023 with five Members of the Committee in attendance. The training was carried out by the Finance Manager and Members reported that they found the session to be very useful and informative.
14. In addition to the training highlighted above, the Chairman of the Committee completed the following training in this municipal year:
  - LGA Leadership Essentials Financial Governance (P3)
  - LGA Leadership Essentials - Audit Committees (P9)
  - CIPFA Update for Local Authority Audit Committee members

### **COMPLIANCE**

15. The Committee continued to operate this year in accordance with best practice as detailed in the Chartered Institute of Public Finance and Accountancy (CIPFA) publication "Audit Committees – Practical Guidance for Local Authorities" (2018)

A review has yet to be completed against the 2022 guidance.

## CHAIRMAN'S STATEMENT

16. I am pleased to be able to present a summary of the work carried out by Committee in 2023/24.
17. The Committee continued to operate in accordance with the 2018 guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). All meetings planned went ahead and were quorate.
18. The Committees work programme for 2023/24 was agreed by Council on the 20 April 2023 and has been delivered across the year with the exception of three items which were delayed due to legitimate reasons.
19. There has been good coverage of the subjects making up the functions of the Committee and members have asked pertinent questions requesting additional assurances on two topics. One of these related to a request for training on the Hampshire Pension Fund which was delivered in November 2023.
20. I have also undertaken significant training this year in relation to the role of the Audit and Governance Committee. As a result of that training and following a review of the year's performance with officers, I would like to propose a number of actions for delivery over the next two years. I believe this will strengthen the operation of the Committee even further.

### Actions:

Proposed Action	Who
<p><b>One to Ones with Committee members</b></p> <p>Meet with each member of the Committee individually to understand their key skills and to generate ideas on how the work of the Committee could be strengthened.</p>	Chairman of the Audit and Governance Committee
<p><b>One to One with Chief Internal Auditor</b></p> <p>Chairman of the Committee to have a one-to-one meeting with the Chief Internal Auditor without other officers present.</p>	Chairman of the Audit and Governance Committee
<p><b>One to One with External Audit Manager</b></p> <p>Chairman of the Committee to have a one-to-one meeting with the External Audit Manager without other officers present.</p>	Chairman of the Audit and Governance Committee
<p><b>Pre-Meeting Summary for Members</b></p> <p>Introduce a summary to be sent to the committee members before the Committee, giving an overview of the topics on the agenda and anything discussed in more detail at the chairman's briefing.</p>	Chairman of the Audit and Governance Committee
<p><b>Review of Latest Guidance</b></p> <p>Complete an updated assessment against the latest CIPFA Guidance: Audit Committees: practical guidance for local authorities and police (October 2022)</p>	Internal Audit Team

Proposed Action	Who
<p><b>Independent Person</b></p> <p>Review the requirements for an independent person and consider a future role on the Committee</p>	Committee Officer
<p><b>Overview of the Committee (Training)</b></p> <p>Deliver an annual overview of the purpose and workings of the Audit and Governance Committee to all Committee members before the July meetings.</p>	Assistant Director (Finance and ICT)
<p><b>Finance Briefings (Training)</b></p> <p>Arrange a series of briefings for the Chairman on how the Council's financial processes operate</p>	Assistant Director (Finance and ICT)

## RISK ASSESSMENT

21. There are no significant risk considerations in relation to this report.

## CONCLUSION

22. The Committee are asked to consider the contents of this draft version of the Annual Review. Any suggested amendments will be incorporated into a final version of the report that will be presented to Council.

## Appendices

Appendix A - Committee Functions and Report Coverage

**Background Papers:** None

### Reference Papers:

The Council's Constitution

Minutes and reports to the Audit and Governance Committee for the Municipal Year 2023/4

CIPFA Publication – Audit Committees – Practical Guidance for Local Authorities and Police (2018)

### Enquiries:

For further information on this report please contact Elaine Hammell. (Tel: 01329 824344)



## Committee Functions and Report Coverage

		Frequency	Last Covered	Covered in 2023/24	Scheduled for 2024/25
<b>OVERALL PURPOSE AND ACCOUNTABILITY</b>					
Review of the Audit and Governance Committee		Annually	2022-23	Partly	<b>YES</b>
Monitoring Officer (MO) Report - to include Review of Work Programme		Every Meeting	n/a	<b>YES</b>	<b>YES</b>
Review of the Functions of the Committee – included in MO Report **		3 yearly	2022-23		
<b>GOVERNANCE, RISK AND CONTROL</b>					
Corporate Governance & AGS	Local Code of Corporate Governance	As needed	2016-17		YES**
	Annual Governance Statement	Annual	n/a	<b>YES</b>	<b>YES</b>
Risk Management	Policy	As needed	2016-17		
	Risk Management Monitoring Reports	6 monthly	n/a	<b>YES</b>	<b>YES</b>
	Business Continuity – Included in Risk Management Report **	3 yearly	2022-23		
	Specific Risk Management topics	As needed	2019-20 (cyber security risks)		
Value for Money	Specific VFM studies	As needed	None		
Counter Fraud	Counter Fraud Policy and Strategy	3 yearly	2023-24	YES**	
	Anti-Bribery Policy**	As needed	2011-12		YES**
	Sanctions and Redress Policy	As needed	2016-17		
	Counter Fraud Annual Report	Annual	n/a	<b>YES</b>	<b>YES</b>
Partnerships	Partnership Governance Report – Included in the Chief Internal Auditors Opinion Report **	Annual	n/a	YES**	YES**
<b>AUDIT</b>					
Internal Audit	Internal Audit Strategy Included in Chief Internal Auditors Quarterly Report **	3 yearly	2018-19		YES**



		Frequency	Last Covered	Covered in 2023/24	Scheduled for 2024/25
	Annual Internal Audit Plan – Included in Chief Internal Auditors Quarterly Report **	Annual	n/a	YES**	YES**
	Chief Internal Auditors Quarterly Report	Quarterly	n/a	<b>YES</b>	<b>YES</b>
	Chief Internal Auditor’s Annual Opinion	Annual	n/a	<b>YES</b>	<b>YES</b>
External Audit	Arrangements for Appointment of External Auditors	As needed	2023-24	<b>YES</b>	
	Annual Plan and Fee	Annual	n/a	<b>YES</b>	<b>YES</b>
	Annual Auditor’s Report and VFM commentary	Annual	n/a	<b>YES</b>	<b>YES</b>
	Annual Certification Report	Annual	n/a	<b>YES</b>	<b>YES</b>
	Specific reports from inspection agencies	As needed	2021-22 (RIPA)		
<b>FINANCIAL REPORTING</b>					
Statement of Accounts		Annual	n/a	<b>YES</b>	<b>YES</b>
External Audit – Audit Results Report		Annual	n/a		<b>YES</b>
<b>WIDER FUNCTIONS OF THE COMMITTEE</b>					
Standards and Ethics	Review of Code of Conduct for Members	As needed	2015-16		
	Review of member / officer protocol	As needed	2008-09		
	Annual Ombudsman Reports and Overview of Complaints against members– Included in MO Report	Annual	n/a	YES**	YES**
	Review of Members Training and Development Programme – Included in MO Report	Annual	n/a	<b>YES</b>	YES**
Treasury Management	Treasury Management Strategy and Indicators	Annual	n/a	<b>YES</b>	<b>YES</b>
Key Policy Review	Annual Review of the Constitution – Included in MO Report**	Annual	n/a	YES**	YES**
	Review of Financial Regulations – included in MO Report**	3 yearly	2022-23		YES**
	Review of Procurement and Contract Procedure Rules	3 yearly	2021-22		<b>YES</b>
	Prevention of the Facilitation of Tax Evasion	As needed	2021-22		
Other Matters referred to the Committee	Updates on legal issues	As needed	2017-18		
	Issues referred by the Chief Executive Officer, Directors and Other Council Bodies	As needed	None		

# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 11 March 2024

**Report of:** Monitoring Officer

**Subject:** MONITORING OFFICER REPORT

#### SUMMARY

This report seeks to update Members on a variety of assurances which are within the functions of the Audit and Governance Committee, that do not require a full report in their own right. The report is set out into two parts. Part One is for noting and Part Two sets out those items for approval or endorsement.

Included in this report is the; Annual Constitution Review, the Committees Work Programme and a change to Part Seven of the Constitution.

#### RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee: -

- a) notes the contents of Part One of the report;
- b) consider the Committee Work Programme for 2024/25 for endorsement by Council; and
- c) consider the changes to the Constitution – Part Seven – Senior Management Structure for endorsement by Council.

## INTRODUCTION

1. This report is a standard agenda item for the Audit and Governance Committee. The aim of the report is to provide Members of the Committee with the assurances required to carry out their functions, as set out in Part Two, Chapter 8 of the Constitution, without the need for a separate report on the agenda.
2. To assist Members in understanding their role with each topic set out in the report it is set out in two parts. Part one sets out matters to be considered by the Committee for noting, for example, the Annual Review of the Constitution. Part two are matters that are to be approved by the Committee for endorsement by Council, for example in this report Members will be asked to approve their Work Programme for 2024/25 which will then be endorsed by Council in April.

### Part One: matters for noting

#### CONSTITUTION REVIEW

3. The Audit and Governance Committee is responsible for reviewing the Council's Constitution. As Part of this function the Committee carries out an annual review of the Constitution.
4. The table below lists the changes and updates that have been made to the Constitution since the last review in March 2023:

Date	Part of the Constitution Updated	Reason for Change	Decision maker & Report Title
11 May 2023	Part One – Chapter 1 – Purpose and Interpretation of the Constitution	Update to the Council's Policy Framework	Council - Policy Framework
27 July 2023	Part One - Chapter 10 - The Council Officers	Updates to posts and titles.	Council - Proposed Restructure of Chief Officer Roles
	Part One - Chapter 6 – The Executive		
	Part Four - Scheme of Delegation to Officers		
	Part Three - Chapter 5 - Decision making by Exec Members		
	Part Four - Standing Orders - Petition Scheme		
	Part Four - Standing Orders - Deputation Schemes		

	Part Six - Members Allowances		
06 September 2023	Part One – Chapter 16 – Codes of Conduct  Appendix 5 (Annexe) – Executive Portfolios including specific service responsibilities	Updates to the areas of Executive Portfolio Responsibility	Executive Leader (Delegated Decision)
14 December 2023	Part Five – Anti Fraud and Corruption Policy	Policy Document Reviewed and Updated	Council (through A&G Minutes)
	Part Four – Financial Regulations	Financial Regulation 13.5 (Disposal of Assets) required updating	
	Part Four – Standing Orders with Respect to Meetings	Updates required to the Deputation Scheme	

5. All of the changes listed above have been made to the Constitution and the Constitution log has been updated to capture these amendments.

#### Next Steps

6. Officers continue to monitor the Constitution and identify areas that may need a detailed review. Each section of the Constitution is examined by Officers and checked for minor updates and any sections that require a more detailed review are logged.
7. Since the last formal review was in 2019, the hope is that the entire Constitution will be examined over the coming year to ensure that it is as up to date and relevant as possible. Any changes will be reported to the Committee as required with progress of the review reported to the Committee through this report at each meeting.

### **Part Two:** matters for approval or endorsement

#### **ACCOUNTABILITY**

##### Committee Work Programme 2024/25

8. As a regulatory Committee the Audit and Governance Committee must submit its work programme to Council each year for endorsement. Set out at appendix A is the work programme for 2024/25 for approval.

#### **UPDATES TO THE CONSTITUTION**

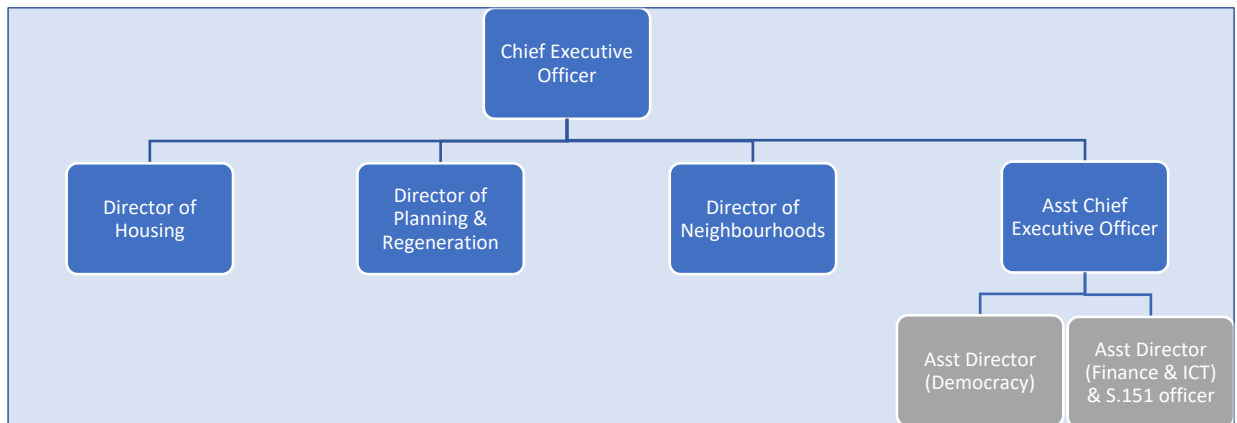
9. Updates to the Constitution are classified as administrative amendments that the Monitoring Officer is able to make in order to keep the Constitution up to date. On

this occasion there have been no updates to the Constitution since the last meeting.

## CHANGES TO THE CONSTITUTION

### Senior Management Structure

10. Following the restructure of Chief Officer Roles, which was agreed by Council on the 27 July 2023, the Chief Executive Officer has made an additional amendment to the responsibilities of the Assistant Director (Democracy).
11. As the Director of Neighbourhoods post remained vacant, the decision was made by the Chief Executive Officer, to move Fareham Live to another service area to maintain continuity, during this important time in the development. Subsequently, Fareham Live, along with the Leisure Centres, Community development grants and Communications teams moved from the Director of Neighbourhoods responsibilities to the Assistant Director (Democracy), as a permanent change.
12. Therefore, Part Seven of the Constitution requires a modification, with a summary of the changes in responsibilities, originally agreed at Council on the 27 July 2023, set out in Appendix B to this report. Please note that only the responsibilities have changed with the Senior Management structure itself unchanged -



## RISK ASSESSMENT

13. There are no significant risk considerations in relation to this report.

## CONCLUSION

14. Members are asked to note the contents of Part One of this report and consider the updates to the Constitution as set out in Part Two.

### Appendices: -

Appendix A: Committee Work Programme 2024/25

Appendix B: Summary of changes to the alignment of Council services to the Senior Leadership Team

**Background Papers:**

The Constitution Log

**Reference Papers:**

The Constitution

Audit and Governance Work Programme – 13 March 2023

**Enquiries:**

For further information on this report please contact Sarah Robinson, Monitoring Officer. (Tel: 01329 824566)





## AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME – 2024/25

Meeting Date	Report Title
<b>24 July 2024</b>	Monitoring Officer Report – to include Review of Financial Regulations
	Annual Governance Statement
	Counter Fraud Annual Report
	Chief Internal Auditors Quarterly Report
	Chief Internal Auditors Annual Opinion - – to include Partnership Governance
	Statement of Accounts
<b>23 September 2024</b>	Monitoring Officer Report - To include Annual Ombudsman Reports and Overview of Complaints against members and Anti Bribery Policy
	Risk Management Monitoring Report
	Chief Internal Auditors Quarterly Report
	External Auditors - Audit Results Report
	Review of Procurement and Contract Procedure Rules
<b>25 November 2024</b>	Monitoring Officer Report - to include Review of Financial Regulations and Local Code of Corporate Governance
	Chief Internal Auditors Quarterly Report
	Treasury Management Strategy Implementation
<b>10 March 2025</b>	Monitoring Officer Report – to include Review of Members Training and Development and Annual Review of the Constitution
	Chief Internal Auditors Quarterly Report – to include Internal Audit Annual Plan & Internal Audit Strategy
	Annual Review of the Committee
	Risk Management Monitoring Report
	External Audit – Certification Report
	Treasury Management Policy and Indicators
	External Audit – Annual Report and VFM Commentary
	External Audit – Plan and Fee



### Alignment of Council Services to the Senior Leadership Team

Director of Housing	Director of Planning & Regeneration	Director of Neighbourhoods	Asst Chief Executive Officer
<ul style="list-style-type: none"> <li>• Tenancy services</li> <li>• Housing Options</li> <li>• Housing Advice</li> <li>• Homelessness</li> <li>• Housing Strategy</li> <li>• Responsive Repairs</li> <li>• Planned Maintenance</li> <li>• Corporate Property</li> <li>• Capital Schemes delivery</li> <li>• Land Charges</li> </ul>	<ul style="list-style-type: none"> <li>• Development Management</li> <li>• Planning Strategy</li> <li>• Public Transport</li> <li>• Commercial Property</li> <li>• Asset Management</li> <li>• Building Control</li> <li>• Coastal Management</li> <li>• Strategic Sites</li> <li>• Economic Development</li> <li>• Solent Airport and Daedalus</li> <li>• Welborne</li> <li>• Town Centre Regeneration</li> </ul>	<ul style="list-style-type: none"> <li>• Waste and Recycling</li> <li>• Street Cleansing</li> <li>• Open Spaces and Grounds Maintenance</li> <li>• Countryside</li> <li>• Public conveniences</li> <li>• Cemeteries</li> <li>• Parking</li> <li>• Licensing</li> <li>• Environmental Health services</li> <li>• Community Safety</li> <li>• Enforcement</li> <li>• Trees</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>○ Democracy incorporating</li> <li>○ Democratic Services</li> <li>○ Information Management</li> <li>○ Electoral Services</li> <li>○ Legal Services Partnership</li> <li>○ Public Engagement</li> <li>○ Web and Social Media</li> <li>○ Leisure Centres</li> <li>○ Fareham Live</li> <li>○ Community development &amp; grants</li> <li>○ Communications</li> <li>○ Finance &amp; ICT (S.151) incorporating               <ul style="list-style-type: none"> <li>• Finance</li> <li>• Audit</li> <li>• Revenues and Benefits</li> <li>• Opportunities</li> <li>• ICT</li> </ul> </li> <li>○ HR</li> </ul>

Note : Asst Director posts shown for information as they do not form part of the Chief Officer structure, in accordance with the Council's Constitution.



# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 11 March 2024  
**Report of:** Assistant Director (Finance and ICT)  
**Subject:** RISK MANAGEMENT MONITORING REPORT

#### SUMMARY

This is the latest six-monthly risk monitoring report highlighting some of the risks arising from the latest rounds of discussions with managers.

A slight change to the content of the report is going to be trialled to strengthen the oversight of the higher risks going forward.

#### RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee review the report as a source of evidence that the current Risk Management Policy is operating in practice.



## INTRODUCTION

1. In March 2017, the Committee approved the latest Risk Management Policy based around a set of principles rather than a framework of registers. Under this process, discussions are held with managers to gather evidence that the policy is operating in practice. In particular, the policy would be considered to be effective if managers are able to discuss:
  - a) what their top risks are and any new or changes in risks and opportunities that have occurred;
  - b) actions that have been taken in the year to mitigate risks;
  - c) incidents that have occurred and actions taken to manage the incident and prevent a repeat;
  - d) risks and solutions shared with other services in the Council or discussed with Council experts in that subject.
2. The last progress report was compiled in September 2023. This report summarises the evidence gathered from the discussions which took place in December 2023 and January 2024.
3. Risks in relation to the Solent Airport and the Daedalus site are not covered in this report. A working group has been established to carry out a detailed risk analysis of the options going forward. This work is in its early stages.

## MANAGERS COVERED BY THIS REPORT

4. Discussions are held in two rounds of interviews, so that each manager is interviewed once in the annual cycle. The Managers covered in the 2 sets of interviews this year are listed in the table below, which highlights those services covered by this report and therefore which risk topics feature.

Managers Interviewed for this report	Managers Interviewed for the last report
Head of Environmental Health (IR) Interim Consultant Housing and Benefits (SP) Interim Planning Strategy Lead (KC) Economic Development Officer (JH) Head of Asset Management (SF) Coastal Partnership Business Development Manager (JR) <b>Legal Partnership Managers</b> Assistant Director (Democracy) (LU) Head of Legal Partnerships (SR) <b>ICT Managers</b> Technical Infrastructure Manager (AS) Development and Systems Support (KW) <b>Corporate Services Managers – part two</b>	Head of Building Control Partnership (JS) Assistant Director (Democracy) (LU) Head of Development Management (LS) Head of Finance and Audit (EH) Director of Housing Delivery (RL) Head of Streetscene (MB) Head of Strategic Sites (SW) Leisure and Community Manager (EB) Property Manager (IC)  <b>Corporate Services Managers – part one</b> Web and Social Media Manager (MP)

Policy, Research and Engagement Manager (RB) Communications Manager (JL)	<b>Human Resources Officers</b> HR Business Partner (TH)
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## STRUCTURE OF THE EVIDENCE GATHERED


5. Detailed notes were taken of each discussion and saved as evidence. The sections below give examples of the risks discussed during the interview and records an opinion as to whether:
- a) the manager was able to demonstrate examples of risk management; and
  - b) whether there were any problems where corporate assistance might be needed.




## RESULTS OF THE RISK MANAGEMENT DISCUSSIONS

6. The sections below provide evidence of effective risk management for the following services:
- Corporate Services (second part)
  - Environmental Health
  - Housing and Benefits
  - Planning Strategy and Economic Development
  - Coastal Management
  - Legal Services
  - IT Services
  - Asset Management


### Corporate Services (second part)

7. A discussion was held with the Policy, Research and Engagement Manager (RB); Financial Services Procurement Manager (RG); and the Acting Senior Audit and Fraud Analyst (CR) and appropriate examples of risk management activity were covered. These included the following risks:


	<p><b>Carbon Footprint: (Update)</b> Risk of failure to deliver the 2030 Carbon neutrality commitment.</p> <p>Success relies on significant additional capital and revenue financing and may also require offsetting. Future technological developments, however, may also help to achieve this commitment.</p> <p>Particular projects in progress are: Application has been made to Phase 2 of the Swimming Pool fund for monies to support energy generation and reduction at the two leisure centres. Preparation for potential future bids to support energy reduction in operational buildings. A Business Case is also being developed for a solar farm which could help offset emissions and generate revenue.</p>	<p><b>Actions in Progress</b></p>
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	<p><b>Consultation and engagement: (Update)</b> Risk that we do not reach interested groups during consultation.</p> <p>A new Communications and Engagement Strategy will be published in Spring 2024 and include actions related to engaging offline groups.</p>	<p>Actions in Progress</p>
	<p><b>Opportunity plan: (Update)</b> Risk of failure of Opportunity Plan work to close the funding gap.</p> <p>New opportunities will be more difficult to identify as the easier projects have been delivered. A new Opportunities Plan for 2023/24 was approved in September 2023 which contained 85 projects. Progress has been made on a number of projects such that additional income and savings have been included in the revised budgets and have helped close the budget gap for 2023/24. There is still work to do to close the budget gap in future years as highlighted in the latest Medium-Term Finance Strategy.</p>	<p>Actions in Progress</p>
	<p><b>New Statutory Joint Complaint Handling Code:</b> Risk of non-compliance and increased costs to meet the requirements of the new code from the Housing Ombudsman, Local Government and Social Care Ombudsman.</p> <p>The new Complaints Code is due to be introduced in April 2024. As part of this change the different ombudsmen will be merging. Additional resources may be needed to meet the quick response times required for complaints. There will also be additional reporting and analysis requirements.</p> <p>The final guidance is due Mid-February but preparation work on revised policy and procedures has been completed. Officer training is planned for April.</p>	<p>Actions in Progress</p>

8. The following significant risk was added by the Senior Leadership Team:

	<p><b>The Office for Local Government (OFLOG):</b> Risk of inability to demonstrate best value to the new government office overseeing the performance of local councils.</p> <p>OFLOG was launched in July 2023 with a vision to provide authoritative and accessible data and analysis about local government performance and support its improvement. One of the strategic objectives is to increase local and central government understanding of local authority performance, and complete local government reviews.</p> <p>The Council will therefore need to expand the metrics and data collection to demonstrate best value in the delivery of its services, but the nature of this requirement is not yet fully known. Performance measure workshops are currently being rolled out across the council and a new approach to corporate performance will be presented to members shortly.</p>	<p>Actions in Progress</p>
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




9. Another discussion was held with the Communications Manager (JL) and the Financial Services Procurement Manager (RG), and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Newspaper Licencing Agency (NLA) Licence:</b> Risk of breaching licencing rules in relation to copying and sharing segments from news articles.</p> <p>Although the Council has low requirements in relation to the use of news articles, there would be a risk if this was done without an appropriate licence being in place. The Council has a licence in place to remove the risk.</p>	<p>Appropriate Actions Taken</p>
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	<p><b>Adverse Publicity:</b> Risk to the Council’s reputation as a result of adverse publicity across the media landscape.</p> <p>The Communications team monitors media coverage including social media and devises appropriate responses as necessary. In particular a new process of “fact checks” has been introduced in which the Council will respond to fake news about the Council by posting a response clarifying the facts of the issue.</p>	<p>Appropriate Actions Taken</p>
	<p><b>Service Resilience:</b> Risk that important tasks could be delayed due to unexpected absences in the team.</p> <p>The Communications team is small so if one is absent unexpectedly this could cause a delay in their work. Resilience is being developed through overlapping roles/awareness with another team within the Council.</p>	<p>Actions in Progress</p>




## Environmental Health



10. A discussion was held with the Head of Environmental Health (IR); Finance Business Partners (LJ); and Acting Senior Audit and Fraud Analyst (CR) appropriate examples of risk management activity were covered. These included the following risks:

 	<p><b>Disabled Facilities Grant Funding:</b> There is a risk that required adaption work will be delayed due to the grant funding needing to be replenished. Delays to the works could result in potential Health and Safety issues and complaints</p> <p>The grant for disabled adaptations comes from the Government’s Better Care Fund which is carried forward between years and drawn down as needed. However, the costs of applications have been increasing with the rise in the cost-of-living rise such that the budget has been exceeded by December. Further draw down from the funding balances has therefore been needed.</p>	<p>Appropriate Actions Taken</p>
	<p><b>Health &amp; Safety investigations:</b> There is a risk that other Environmental Health operations, such as food safety inspections, may be impacted due to the need to divert resources to investigations.</p> <p>Two high profile and serious Health and Safety investigations are ongoing which are resource intensive.</p> <p>Actions being taken by the team to keep on top of the workload as best they can; they are well practiced at identifying the most critical business as usual work which needs to be prioritised.</p>	<p>Actions in Progress</p>
	<p><b>Out of hours service supplier dependency:</b> An external supplier provides the service call handling. There are no other companies available at the moment to provide the service. Therefore, there is a risk that, should the contract be unexpectedly terminated, council staff would need to undertake extra work outside their normal working hours impacting their daily jobs.</p> <p>There are some concerns over the robustness of the supplier, but the contract is due to expire in 2025, so alternatives are actively being sought now.</p>	<p>Appropriate Actions taken but risk remains</p>
	<p><b>Health &amp; Safety Risk Assessments: (Update)</b> Risk that legal obligations are not being met in relation to completing risk assessments.</p> <p>A new electronic system has been developed and is being used to manage risk assessments across the Organisation going forward. Work is still in progress to fully populate the system from the paper-based copies.</p>	<p>Actions in Progress</p> <p>Previously red</p>


## Housing and Benefits

11. A discussion was held with the Interim Consultant Housing and Benefits (SP); Finance Business Partner (KB); and Head of Finance and Audit (EH). Appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Housing Benefits Subsidy Challenge:</b> Risk of poor audit opinion and impact on subsidy payment.</p> <p>An issue was raised during the annual external audit of the Housing Benefit subsidy claim. This was that the enforcement of the document retention policy meant that key evidence was not available to support some payments of benefit. If the validity of the payments was challenged, then this might mean that the Government would not reimburse the Council for payments made.</p> <p>Officers obtained replacement evidence to confirm the validity of payments in the sample. Advice was sought from the government department as to the need to obtain further evidence for further claims outside of the sample. The document retention policy has been revised to address this risk going forward.</p>	<p>Appropriate Actions Taken</p>
	<p><b>Housing Revenue Account (HRA) Capital Spend:</b> Risk of deficit in the current and future financial years.</p> <p>A Stock Condition Survey has been commissioned which will look at all of our stock over a 5-year period (20% each financial year) and inform maintenance priorities over the coming years. Due to the aging profile of the housing stock and inflationary impact on costs, the current level of spend on capital improvements and maintenance in the HRA is not sustainable and there needs to be strong financial management to verify the priorities and sources of funding.</p> <p>Action are being taking to increase financial monitoring of the HRA and corporate visibility. Funding is being prioritised for the essential works. Housing restructure in progress to strengthen management of planned maintenance work. Projects have been included in the Opportunities Plan to reduce costs and increase income.</p>	<p>Appropriate Actions Taken</p>
	<p><b>New Consumer Standards &amp; Inspection regime from the Regulator of Social Housing (RoSH):</b> New risk of non-compliance with the RoSH specific expectations (new standards) which come into force on 01/04/24, and associated risk arising from RoSH inspections of the housing service every four years.</p> <p>Only a draft version of the new national standards for social housing providers is currently available, which includes 61 'specific expectations' relating to various matters on condition of stock, tenant engagement/participation, tenancies, neighbourhood management, governance, and more. An initial self-assessment against the draft standards has been undertaken by Officers, this will enable an Action Plan to be developed to work toward compliance. Some actions will take several years to complete.</p>	<p>Actions in Progress</p>


	<p><b>DLUHC Peer Review or Intervention:</b> Risk of some homelessness funding being returned to the government if they considered that the housing options service was not performing adequately.</p> <p>A risk was identified that some performance measures for the housing options service in housing could trigger an intervention and loss of Homeless Prevention Grant funding. The Council therefore built up a proactive working relationship with the Department for Levelling Up Housing and Communities (DLUHC) and took up their offer to undertake a peer review at Fareham.</p> <p>DLUHC endorsed the actions already taken and planned in the Housing Development Plan. Other actions recommended from the peer review are in the process of being implemented.</p>	<p>Actions in Progress</p>
	<p><b>Vulnerability of Housing Team (Update):</b> Increased risk of physical aggression from the public in the reception area.</p> <p>Culture changes with the team implemented on how customer relationships in reception are approached. Appropriate training and reception layout improvements have taken place along with more robust recording of incidents and monitoring of trends has been implemented. Awareness is high of potential issues, and although no further or heightened risk is identified, ongoing monitoring of incidence will need to take place.</p>	<p>Actions in Progress</p> <p>Previously red</p>



12. The following significant risk was added by the Senior Leadership Team:

	<p><b>Increasing Cost of Bed and Breakfast Provision for the Homeless:</b> Risk that funds are not available to support the Council's homelessness responsibilities.</p> <p>In 2017 the Homelessness Reduction Act was introduced increasing the duties of Councils to help homeless people and trying to prevent people becoming homeless in the first place. The cost of providing emergency accommodation has increased to nearly £2million as the numbers presenting as homeless has risen, together with the average cost per night increasing and there are difficulties moving customers on to further accommodation (resulting in longer stays).</p> <p>The government funding received to help fund the policy change will be exhausted in 2023/4 putting pressure on the budget in future years.</p>	<p>Further Action needed</p>
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

### Planning Strategy and Economic Development

13. A discussion was held with the Interim Planning and Regeneration Consultant (KC); Finance Business Partner (GC); and Head of Finance and Audit (EH). Appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Housing Supply Penalties (Update):</b> Previous risk of failure to meet housing delivery targets which will result in the Council facing penalties.</p> <p>New Government directive confirmed that as the Council has a newly adopted Local Plan, the need to constantly demonstrate a 5-year Housing land supply is no longer required.</p>	<p>Appropriate Actions Taken</p>
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	<p><b>Housing Supply and Delivery:</b> Risk of failure to identify sufficient land for new housing development or to meet housing delivery requirements, which result in the Council's planning policies being weakened.</p> <p>There was the potential that the current delivery test was likely to be removed or restructured which meant the Council could demonstrate the provision of supply by granting enough planning permissions. However, to date the Government's method of measuring housing delivery has not been changed and the number of houses delivered in the Borough have not met requirements. Therefore, the risk remains, and current actions being taken to address the risk are:</p> <p>A) Ensuring that planning applications at Welborne and other allocated sites in the Borough are approved at the earliest opportunity thereby enabling them to move to delivery.</p> <p>B) Reviewing and updating the Council's Housing Delivery Test Action Plan.</p>	<p>Actions in Progress</p>
	<p><b>Next Local Plan:</b> The requirements for the next local plan process are currently unclear giving a risk of non-compliance.</p> <p>The Council has a newly adopted Local Plan. The Government is proposing that there should be a new plan every 5 years with a change in process to make it quicker to do. If this is the case will not have much respite before the Council needs to start on its next plan. There is uncertainty surrounding the new local plan making process and therefore a long-term risk on the horizon.</p> <p>The potential changes are being monitored, and any emerging new rules will be addressed.</p>	<p>Actions in Progress</p>





14. A further discussion was held with the Economic Development Officer (JH) and Head of Finance and Audit (EH). Appropriate examples of risk management activity were covered. These included the following risks:

 	<p><b>Continuity Cover for Business Events:</b> Risk that as the service is provided by a single person, they may become unexpectedly unavailable on the day of a significant business event /expo that we would not want to have to cancel.</p> <p>Officer now keeps the Leisure events team fully informed about all events being organised, so someone from the team can step in quickly to let the event continue if needed.</p>	<p>Appropriate Actions Taken</p>
	<p><b>UKSPF Funding:</b> Risk that the spend of business support funding from the UK Shared Prosperity Fund does not comply with the government's grant conditions or the Council's procurement rules. This includes what the money can be spent on and the timescales in which it should be spent.</p> <p>The business support part of the fund is being used for Decarbonisation support for local businesses.</p> <p>Regular advice taken from the Procurement Manager and project lead officers on approach being followed and progress timetable that has to be delivered. Agreement with the successful partner requires them to provide the details needed for the returns. Weekly contract management meetings in place from the start of the arrangement.</p>	<p>Actions in Progress</p>







## Coastal Management

15. A discussion was held with a member of the Eastern Solent Coastal Partnership Business Development Manager (JR); Finance Business Partner (KG); and Senior Audit and Fraud Analyst (SD) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Salt Marsh Creation (Update):</b> Opportunity to create salt marsh habitat to offset losses with sea defence works elsewhere in the County.</p> <p>Funding has been obtained from the Environment Agency to look at salt marsh habitat creation at Hook Lake which could offset sea defences pressures on other areas of the Solent. There is a risk that salt marshes will turn into mud flats because of climate change. Loss of coastal grazing marsh means this has to be recreated elsewhere.</p> <p><b>Update –</b> The project is on hold until the changes from new legislation issued November 2023 on habitat creation &amp; restoration programme (HCRP), is understood. There will be an impact on project proposals as part of Biodiversity Net Gain. There is a risk that there could be a funding gap likely to impact on service delivery. A report on this is scheduled to go to the Executive in 2024/25.</p>	<p>Actions in Progress</p>
	<p><b>Increase in Costs (Update):</b> Risk that budgets are insufficient due to the significant cost increase in construction materials arising from the crisis in Ukraine and the inflation increase.</p> <p>Some prices have levelled but are not returning to prior values and there is still volatility in the market. The Service have built in provisions for increases as well as mitigating future pressures by having contractors purchase materials upfront in advance, with the ownership of inventory risk being with the contractors rather than Fareham.</p> <p>The Environment Agency is allowing some rebasing of grants on projects already started.</p>	<p>Actions in Progress</p>
	<p><b>Loss of funding (Update):</b> Risk of reduced availability of both EU funding for projects, as well as changing focus for Grant in Aid (GIA) funds from DEFRA (the service currently has an 85% reliance on GIA funding).</p> <p>There have been successes with funding bids in conjunction with universities, as well as local providers. There has also been increased interest from other local authorities considering joining the partnership.</p> <p>A partnership risk budget is available to cover potential shortfalls.</p>	<p>Actions in Progress</p>
	<p><b>Ageing flood and coastal defence assets:</b> Risk that older defences fail.</p> <p>Older assets are at a higher risk of damage and failure during storm events. These assets may not be due for capital replacement for many years and need to be maintained.</p> <p>The risk is managed through routine asset inspections to detect signs of deterioration. However, conditions may deteriorate quickly increasing repair costs, service demand and reputational impacts, as well as health and safety implications if repairs are not delivered promptly.</p> <p>Discussions are ongoing with Hampshire County Council regarding how future works will be funded and what the priorities are based on potential risks for additional funding bids.</p>	<p>Actions in Progress</p>

## Legal Services



16. A discussion was held with the Assistant Director (Democracy) (LU); Head of Legal partnerships for Southampton City Council (SR); Finance Business Partner (LJ); and Senior Audit and Fraud Analyst (SD) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Covid Inquiry (Update):</b> Risk of poor audit trail to respond to the Government's requests.</p> <p>Local Authorities are required to retain documentation relating to corporate decisions made during the pandemic. The Local Government Association is leading on what documents need to be collated and submitted.</p> <p>The Legal Partnership utilise a case management system, which mean that they can pull off information quickly.</p> <p>The Council has been able to respond quickly to the requests for information that have been received so far.</p> <p>However, the covid inquiry is likely to last a few more years yet so there is an ongoing risk that we need to retain the documentation to prevent legal challenge.</p>	<p>Appropriate Actions Taken</p> <p>Previously amber</p>
	<p><b>Extended Partnership (Update):</b> Risk that the partnership is not able to maintain the current level of service.</p> <p>Havant Borough Council is now part of the Legal Partnership. Further solicitors have been recruited, and there has been no impact on the legal resources available to the Council. However, this is a shifting picture as other pressures on the service continue.</p>	<p>Actions in Progress</p>
	<p><b>Section 114 Notice:</b> Risk of Southampton City Council (SCC) issuing a S114 notice reporting that they are in financial difficulty impacting on the partnership.</p> <p>SCC have a contractual obligation to provide services to FBC which should be honoured if the Council falls into special measures.</p> <p>Appropriate wording has already been drafted as to the continuity of the service to reassure the Council of this should this the notice be issued.</p> <p>However, there is a risk that the management cut back all spend not considered essential. There is also a risk that this will affect the future retention and recruitment of staff. A national Local Government Authority work stream has been set up to help mitigate general problems in recruitment of commercial property solicitors.</p>	<p>Appropriate Actions taken but Risk remains</p>
	<p><b>Authority to Appear in Court:</b> Risk that Council employees are challenged in respect of their authority to appear in court.</p> <p>In a recent case, revenue officers were challenged on their authority to appear in court to pursue the collection of debts. Legal advice received was that "implied" authority based on a person's post is not strong enough.</p> <p>Officers who attend court on the Councils behalf, will be provided with a letter of authority signed by the Chief Executive Officer, noting that the officers have the authority to represent the Council in court.</p>	<p>Actions in Progress</p>

	Furthermore, a scheme of delegation is being drafted by each directorate to ensure officers have sufficient authorisation to represent the Council in court.	
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## IT Services

17. A discussion was held with the Development and Systems Support Manager (KW); Technical Infrastructure Manager (AS); Finance Business Partner (HT); and Head of Finance and Audit (EH) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Physical space limitation (Update):</b> Risk to physical safety of employees when building new PCs.</p> <p>A new designated space has been sourced, which provides an appropriate amount of space, which is free from the risk of trip hazards.</p>	<p>Appropriate Actions Taken</p> <p>Previously amber</p>
	<p><b>Home Working Assessments:</b> Risk that issues raised by employees about their working from home arrangements are not adequately followed up by managers.</p> <p>Assurance work now completed by internal audit and Human Resources teams and no evidence was found that this risk is still a problem.</p>	<p>Appropriate Actions Taken</p> <p>Previously red</p>

## Asset Management

18. A discussion was held with the Head of Asset Management (SF); Finance Business Partner (KG); and Senior Audit and Fraud Analyst (SD) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Fareham Shopping Centre (Update):</b> Risk that purchase of shopping centre becomes a financial burden.</p> <p>Appropriate asset &amp; strategic management teams have been contracted to support successful operations of the shopping centre. Responsibilities include ensuring vacant units are filled, operational costs (e.g., repairing the premises) remain low and net operating income sustainably increases.</p>	<p>Actions in progress</p> <p>Previously red</p>
	<p><b>Energy Performance Certificate (EPC) Compliance:</b> Risk of the Fareham Shopping Centre being non-compliant with EPC legislation.</p> <p>Some due diligence carried out on this during the purchase. Internal resources are being utilised to monitor each milestone the Fareham Shopping Centre needs to achieve in order to be compliant with necessary EPC legislation by April 2027.</p>	<p>Actions in progress</p>

## **FUTURE RISK MANAGEMENT COVERAGE**

19. The current risk management discussion regime has been in place for a few years now and there have been some significant changes to the senior management structure. A new approach to the Officers have therefore been considered and will be trailed for the next risk management cycle. Changes to the approach include:
- Each of the 6 monthly reports will cover all managers of two directorates, rather than spreading them across the 2 reports.
  - Directors will be included in the process and will be interviewed every 6 months. If their directorate is the subject of that report then the interview will be conducted at the end of the process so they can comment on the risks arising, particularly the level of the risk and risks that are missing from their perspective.
  - All the significant risks will be grouped together and updated in each report. This includes any cross-cutting issues which relate to the workforce plan.

## **APPENDICES**

Appendix A: Key to the Icons used in the Risk Tables

**Background Papers:** None

### **Reference Papers:**

Report to Audit and Governance Committee on 13 March 2017 on the Revised Risk Management Policy

CIPFA / SOLACE - Delivering Good Governance in Local Government Framework  
April 2016 Edition

### **Enquiries:**

For further information on this report please contact Elaine Hammell. (Tel: 01329 824344)

**Key to the Risk Category Icons Used in the Tables**

	Contractors, suppliers or goods risk
	Environmental impact risk
	Financial Risk
	Health and Safety risk
	Legal and regulations risk
	Reputation and customer satisfaction risk
	Service Delivery risk
	Technological risk
	Workforce resources risk

**Risk Classifications in Use**

Appropriate Actions Taken
Risk Occurred - Appropriate Actions Taken
Actions in Progress
Appropriate Actions taken but Risk remains
Appropriate Actions being taken but High Risk remains
Further Action may be needed



# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 11 March 2024

**Report of:** Assistant Director (Finance & ICT)

**Subject:** HEAD OF INTERNAL AUDIT'S QUARTERLY REPORT AND ANNUAL PLAN

#### SUMMARY

This report is a standard item on the Audit and Governance Committee agenda with the aim of providing Members with the assurances arising from the latest internal audit work. It also gives an update on the progress being made with setting and delivering the audit plans.

#### RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee:

- a) notes the progress and findings arising from Internal Audit work; and
- b) approves the proposed full plan for the 2024/25 audit year as set out in Appendix Three.



## INTRODUCTION

1. This report provides the assurances arising from the latest internal audit work and gives an update on the progress being made with setting and delivering the audit plans.

## PROGRESS OF THE 2023/24 AUDIT PLAN

2. Work has commenced on 20 (91%) of the 22 audits in the current internal audit plan, as noted in Appendix One, such that 11 of the audits have been finalised, 7 are at Stage 4 (The Auditor has started to deliver the agreed scope of work) and 1 is at Stage 3 (The Terms of Reference for the Assignment have been issued) and 1 is at Stage 1 (The Audit teams have started drawing up the scope of coverage for the assignment).
3. As part of the restructure of the finance department, a new Chief Internal Auditor, Mark Somerset, will be appointed from the audit partnership from 1<sup>st</sup> April 2024. The Key Finance System Data Analytics audit from the 2023/24 plan has been postponed until early 2024/25, and to allocate that time from the partnership agreement for the completion of the 2024/25 audit plan. This will also allow the relevant data extracts to be available for testing.

## FINALISING PREVIOUS PLANS

4. There are 5 outstanding audits from the previous Audit Plans. Work is continuing to review all outstanding recommendations. The S106 contributions audit has now been completed and work has been undertaken to resolve some previous issues. Going forward there will be quarterly meetings during 2024/25 between the Finance, Planning Strategy and Street Scene teams to discuss new monies received.

## FINDINGS FROM COMPLETED AUDITS

5. 8 audits have been completed since the last report as highlighted in the table below. There are no significant findings to highlight.

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
Local Government Software package	Strong	-	-	-
Benefits	Strong	-	-	1
Income Management	Strong	-	-	1
Housing Grants and Home Improvement Loans	Strong	-	-	-
Energy Rebates - data matching of 2022/23 payments	N/A	-	1	-

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
Process Flow for S106 Contributions (22/23 audit plan)	N/A	-	5	-
Annual Procurement Transaction Testing	N/A	-	13	1
Home working - Risk Assessments and Confidentiality Arrangements	N/A	-	20	-

6. The inhouse audit team have recently completed a piece of assurance work looking at Home Working in relation to the completeness of employee risk assessments and confidentiality arrangements whilst working at home. Interviews were carried out with a sample of employees and overall working from home was seen as a positive. No issues were found with the adequacy of the management of the home work station assessments which was the main reason for the audit. Other suggestions for improvement of management of home working the arrangements were raised following all the interview work carried out and a corporate action plan has been created which will help inform a wider workforce plan.
7. The data matching of the 35,546 energy rebate payments of £150 made in 2022/23 identified 8 errors in payment, none of which had been declared. The service is now pursuing repayment from the recipient of these payments. Strong assurance is also provided that there was no evidence of internal fraud in relation to these payments which concludes the due diligence on this process.

#### INTERNAL AUDIT PLAN 2023/24

8. A requirement of Public Sector Internal Audit Standards 2017 is that *'a risk-based plan is established to determine the priorities of internal audit activity, consistent with the organisation's goals. It must take into account the requirement to produce an annual internal audit opinion and the assurance framework'*.
9. The Annual Audit Plan provides a mechanism in which the Chief Internal Auditor utilises the available internal audit resources to produce the evidence needed to give an Annual Audit Opinion. The Annual Audit Opinion is a key source of evidence for the Annual Governance Statement.
10. Work has now been completed to bring a full proposed plan of work for 2024/25 to members for approval as set out in **Appendix Three**. The plan has been collated giving consideration to the following:
  - (a) Previous coverage of the whole audit universe for the Council (currently 169 subjects) and the Audit Strategy requirement to cover all fundamental

system every 3 years and all High Risk audits every 5 years. (A copy of the Internal Audit Strategy is provided in **Appendix Four**).

- (b) The Council's Corporate Strategy and key priorities, and internal policy and process changes and initiatives.
- (c) Initiatives, changes and risks being highlighted through the Risk Management process and Medium-Term Financial Strategy; including projects being delivered through the Opportunities Plan.
- (d) Governance, fraud or risk issues identified through the year from work carried out by the internal audit or finance teams; including horizon scanning for emerging local or national risks and themes.
- (e) Trends and outstanding recommendations identified on the audit recommendation database.
- (f) Consultation with the senior managers of the Council including the Chief Executive, Assistant Chief Executive Officer, Director of Housing, Director of Planning and Regeneration and the Director of Neighbourhoods.

11. The following should be noted:

- a) **Level of Opinion Audit:** There is provision in the plan for 190 days of individual audit opinion work plus time spent by the in-house team to support these audits. This meets the Strategy minimum of 180 days.
- b) **Number of Assignments:** There are 22 discrete pieces of work included in the plan, plus 9 in the reserve list, covering a variety of departments in the Council. There will also be reactive pieces of work completed in the year which will be used to support the Annual Audit Opinion. This meets the Strategy minimum of 20 audits.
- c) **Type of Audits:** The plan includes the breakdown of the types of audit set out in the Strategy including 4 Fundamental Systems and 6 High Risk Audits. It also includes some coverage of key corporate projects as required by the CIPFA Statement on the Role of the Chief Internal Auditor. This is being achieved by introducing at least one audit each year to look at capital expenditure.

### **Resourcing the Plan**

- 12. Resources available through the partnership with Portsmouth City Council will be used to deliver the majority of the Opinion work to ensure independence. They will also be used to assist with some of the Wider pieces of work.
- 13. The rest of the plan will be delivered by a mixture of in-house audit resources and by collaborative working with other teams in the Council.
- 14. The use of the Reserve list of work will help us to allow some capacity in the team to be reserved for unplanned work and the impact of other governance work identified for the year which do not feature in the plan. These audits will also be targeted if for some reason some of the planned audits cannot proceed (e.g. a key manager is not available).

## **RISK ASSESSMENT**

15. There are no significant risk considerations in relation to this report.

### **Appendices:**

**Appendix One** - Audits in the 2023/24 Plan

**Appendix Two** – Reference Tables

**Appendix Three** – Proposed full Audit Plan for 2024/25

**Appendix Four** – Internal Audit Strategy (separate document)

### **Background Papers:**

Head of Audit's quarterly report to the Audit and Governance Committee on 27<sup>th</sup> November 2023.

Head of Audit's quarterly report (including 2023/24 Audit Plan) to the Audit and Governance Committee on 13<sup>th</sup> March 2023.

### **Reference Papers: None**

### **Enquiries:**

For further information on this report please contact Clare Rogers. (Tel: 01329 824691)

APPENDIX ONE

AUDITS IN THE 2023/24 PLAN

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included	Errors Found ? Y/N	New Recommendations		Previous Recs. (E and I only)			
							Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
FUNDAMENTAL SYSTEM AUDITS												
Income Management (1279)	10	12	Strong	↑ 20/21	March 2024	N	-	-	6	-	-	1
Main Accounting System & Budgetary Control (1280)	4	8										
Treasury Management (1281)	10	12	Strong	↔ 19/20	November 2023	N	-	2	1	-	-	-
Vehicle Management Invoice Management (1282)	Not started	10										
Benefits (1283)	10	12	Strong	↔ 21/22	March 2024	N	-	-	1	-	1	-
SERVICES AND SYSTEMS - HIGH RISK												
Homelessness (1284)	4	15										
Housing Grants and Home Improvement Loans (1285)	10	5	Strong	↑ 18/19	March 2024	N	-	-	-	-	-	-
Leisure Centres (1286)	10	12	Strong	↑ 17/18	September 2023	N	-	1	-	-	-	-
Parking Income (1287)	4	12										



Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included	Errors Found ? Y/N	New Recommendations		Previous Recs. (E and I only)			
							Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
Home working - risk assessments and confidentiality arrangements (1299)	10		N/A	N/A	March 2024	N	-	20	-	-	-	-
Targeted Assistance with Recommendation Implementation (ICT) (1300)	10	8	N/A	N/A	November 2023	N	-	-	20	10	2	1
RESERVE AUDITS												
Petty Cash and Floats												
Information flow in the Business Rates team												
Social Media Monitoring by services Follow Up												
Pre-application advice cost comparison to income												
PCI Compliance												
Vehicle Management												
Housing Communal services												

\* A key to the information in this column is given in **Appendix Two**



## APPENDIX TWO - Reference Tables

### Scale of Assurance Opinions

<b>Strong</b>	There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
<b>Reasonable</b>	There is basically a sound system of internal control, but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
<b>Limited</b>	There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
<b>Minimal</b>	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

### 1. Scale of Recommendation Priorities

<b>Essential</b>	A fundamental weakness in the control system which presents immediate risk to the service or system of a significant nature. Requires urgent attention by management. Reported to the A&G Committee and implementation of proposed actions are monitored.
<b>Important</b>	A significant control weakness where the risk is not imminent or only of a moderate nature. This needs addressing but is not urgent. Reported to the A&G Committee and implementation of proposed actions are monitored.
<b>Advisory</b>	A weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Consideration should be given to addressing the weakness if there is the appetite and/or capacity to implement the improvements. Actions are not tracked.

### 2. Stages of An Audit Assignment

<b>Stage 1</b>	The Audit teams have started drawing up the scope of coverage for the assignment.
<b>Stage 2</b>	A scoping meeting has been held with the Sponsor in the client service.
<b>Stage 3</b>	The Terms of Reference for the Assignment have been issued.
<b>Stage 4</b>	The Auditor has started to deliver the agreed scope of work.
<b>Stage 5</b>	A first draft of the report has been received by the Support Officer to be reviewed.
<b>Stage 6</b>	Any additional testing identified has been completed.
<b>Stage 7</b>	An exit meeting has been held with the Sponsor giving the preliminary feedback from the work.
<b>Stage 8</b>	The draft report has been received by the in-house audit team.
<b>Stage 9</b>	The draft report has been issued to the Service Sponsor and is awaiting their response.
<b>Stage 10</b>	The final report has been issued.

## APPENDIX THREE - Full Internal Audit Plan 2024/25

	Type	Title	Sponsors	Strategic Risk	Days	Reason for Inclusion in Plan
	<b>OPINION WORK</b>					
1	Fundamental Systems	<b>Accounts Receivable</b>	Assistant Director (Finance & IT)	ED, RI	12	Fundamental system - last opinion given 2020/21.
2	Fundamental Systems	<b>Accounts Payable</b>	Assistant Director (Finance & IT)	ED, RI	12	Fundamental system - last opinion given 2021/22.
3	Fundamental Systems	<b>Local Tax Collection</b>	Assistant Director (Finance & IT)	RI, ED	12	Fundamental system - last opinion given 2021/22.
4	Fundamental Systems	<b>Fixed Assets</b>	Assistant Director (Finance & IT), Head of Asset Management	ED	12	Fundamental system - last opinion given 2021/22.
5	Services and Systems - High Risk	<b>Property Maintenance &amp; Inspections - Council Buildings</b>	Director of Housing	SH	10	High risk area has not been fully reviewed since 2017/18
6	Services and Systems - High Risk	<b>Planned Property Maintenance</b>	Director of Housing, Property Manager (Housing)	HC, SH, RI	15	New high risk area identified.
7	Services and Systems - High Risk	<b>Housing Communal Services</b>	Director of Housing, Head of Housing	HC, SH, RI	10	High risk area, last opinion given in 2018/19.
8	Services and Systems - High Risk	<b>Housing Delivery &amp; Enabling</b>	Director of Housing	HC, RI	10	New high-risk area, has not been previously reviewed. High level of capital expenditure.
9	Services and Systems - High Risk	<b>Street Cleansing</b>	Director of Neighbourhoods, Head of Streetscene	SH	10	High risk audit - last opinion given 2019/20.
10	Services and Systems - High Risk	<b>Parking Strategy (Capital Spend)</b>	Director of Neighbourhoods	ED, EN	10	High risk audit - last opinion given 2019/20. Increase in capital expenditure and new town centre parking strategy. Focus on the demolition and reprofiling of town centre car parks

## APPENDIX THREE - Full Internal Audit Plan 2024/25

Type	Title	Sponsors	Strategic Risk	Days	Reason for Inclusion in Plan	
<b>Opinion Work</b>						
11	Services and Systems - Other	<b>Private Sector Housing (Enforcement)</b>	Director of Neighbourhoods, Head of Environmental Health	SH, RI	12	Area has not previously been audited
12	Computer - Fundamental System	<b>Homelessness, Prevention and Advice Workflow Management System</b>	Assistant Director (Finance & IT), Director of Housing	HC, RI	10	Cyclical coverage of key IT systems
13	Computer - Key Risk	<b>ICT Business Continuity</b>	Assistant Director (Finance & IT)	RI	15	Last audit opinion given in 2015/16, high risk area within IT
14	Corporate, Specialist, Governance & Risk	<b>Environmental Health Partnership</b>	Director of Neighbourhoods, Head of Environmental Health	SH, RI	10	High spend area which has not previously been reviewed as a separate audit
15	Corporate, Specialist, Governance & Risk	<b>Fareham Shopping Centre</b>	Director of Planning and Regeneration	ED	10	New area, large acquisition during 2023/24
16	Corporate, Specialist, Governance & Risk	<b>Corporate Governance</b>	Chief Executive	HC, ED, EN, LE, SH, RI	10	To review the Authority's compliance with the Local Code of Corporate Governance
17	Corporate, Specialist, Governance & Risk	<b>Freedom of Information</b>	Assistant Director (Democracy)	RI	10	No previous audit opinion
<b>Total Opinion Work</b>					<b>190</b>	

## APPENDIX THREE - Full Internal Audit Plan 2024/25

Type	Title	Sponsors	Strategic Risk	Days	Reason for Inclusion in Plan
<b>WIDER WORK</b>					
18	Thematic review	<b>Annual Procurement transaction testing</b>	Cross Cutting		Annual interviews held with services to review their knowledge of spend in their area and compliance with the Procurement and Contract Procedure Rules.
19	Fundamental Systems	<b>Key Finance System Data Analytics</b>	Assistant Director (Finance & IT)		Deferred from 23/24 Audit Plan., New analysis of fundamental systems (accounts payable and accounts receivable) and new IT system. Second stage implementation of data analytic tests for the new finance system including targeted tests of control changes.
20	Grants	<b>Grant Certification</b>	Cross Cutting		Certification of grants that require assurances from the Chief Internal Auditor
21	Counter Fraud Data Matching	<b>NFI Data Privacy Notices</b>	Cross Cutting		Biennial requirement required for the National Fraud Initiative declarations for 2024/25
22	Corporate Assurance Work - FOLLOW UP	<b>Targeted Assistance with Recommendation Implementation</b>	Cross Cutting		To assist services with implementation recommendations each year.
<b>RESERVE WORK IF TIME ALLOWS</b>					
	Computer	<b>Printing</b>	Assistant Director (Finance & IT)	RI	Last reviewed in 2007/08. Focus on cost control and invoicing of major printing jobs.
	Services and Systems - High Risk	<b>Housing Advice &amp; Register</b>	Director of Housing	HC, SH, RI	High risk audit, last opinion given in 2010/11.
	Corporate, Specialist, Governance & Risk	<b>Project Management incl. Opportunities Plan</b>	Assistant Director (Democracy), Assistant Director Finance & IT	HC, ED, EN, LE, SH, RI	Opportunities plan not yet audited, key area in the realisation of the corporate strategy
	Services and Systems - Other	<b>Welborne Delivery</b>	Director of Planning and Regeneration	ED, HC, EN, LE	Key project for the Authority

## APPENDIX THREE - Full Internal Audit Plan 2024/25

Type	Title	Sponsors	Strategic Risk	Days	Reason for Inclusion in Plan
Services and Systems - Other	<b>Purchase Cards</b>	Assistant Director (Finance & IT)	RI		Last opinion given in 2014/15, increase in use
Computer	<b>Telecommunications</b>	Assistant Director (Finance & ICT)	RI		Introduction and controls over bring your own device policy
Corporate, Specialist, Governance & Risk	<b>Consultants</b>	Deputy Chief Executive	HC, ED, EN, LE, SH, RI		Never previously audited. HMRC compliance and control of expenditure
Corporate, Specialist, Governance & Risk	<b>Audit Committee Governance</b>	Assistant Director (Democracy)	RI		Review compliance with the 2022 CIPFA guidance on audit committees. Request by the Chairman
Computer	<b>Finance System income interfaces</b>	Assistant Director (Finance & IT)	RI		To provide assurances over the interface and reconciliation of the income payment methods into the finance system

Corporate Strategy Priorities	Code for Audit Plan
Provide Housing Choices	HC
Respond to Climate Change and Protect the Environment	EN
Strong, Safe and Healthy Communities	SH
Promote Economic Development	ED
Leisure Opportunities for Wellbeing and Fun	LE
Responsive, Inclusive and Innovative Council	RI



# FAREHAM

## BOROUGH COUNCIL

# INTERNAL AUDIT STRATEGY

### 1. Introduction

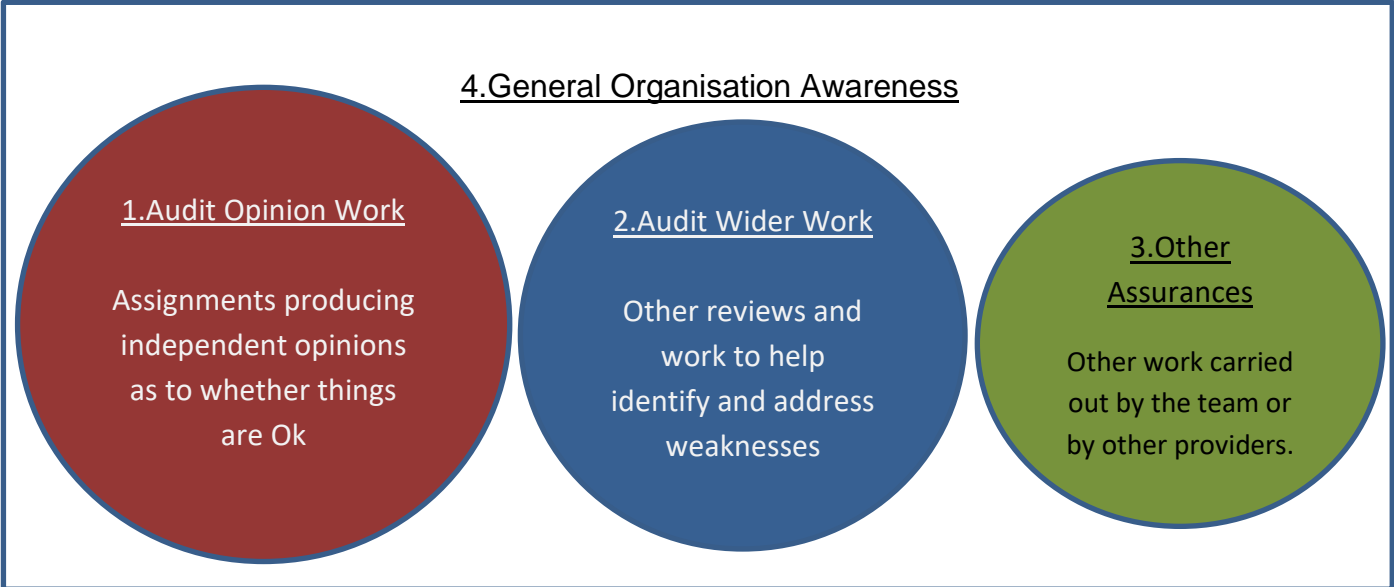
The Internal Audit Service, along with other assurance providers, forms the “third line of defence” for the Council after the controls and oversight processes established by management.

This is achieved by carrying out a programme of work which results in an Annual Audit Opinion providing a conclusion on the ‘*overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control*’.

This Strategy sets out the nature and extent of work proposed for this Council to support the Annual Audit Opinion. It supplements the Internal Audit Charter, which sets out the purpose, authority and responsibilities of the service, and helps demonstrate how the service will be delivered to meet the requirements of the Charter.

### 2. Sources of Assurance

This Strategy recognises 4 sources of assurance which can be used to support the Annual Audit Opinion. These are summarised in the diagram below and further in [Appendix 1](#) which shows the work involved in these groups and how they support the provision of the different parts of the Annual Audit Opinion.





## Internal Audit Activity (1 and 2)

Two sources of assurance will come from the work carried out by the Internal Audit Service in delivering the planned list of assignments in the year, or completing assignments from previous years.

**Audit Opinion work** consists of fully independent risk based audits whose aim is to issue an “assurance opinion” on the adequacy of the system of internal control based using the 4-point scale set out in the Internal Audit Charter. These audits are selected from the Audit Universe.

**Audit Wider Work** is carried out for a specific purpose and the approach to the review is not risk based and an assurance opinion is NOT given at the end of the assignment. These reviews tend to be thematic, cross cutting or to help understand or address weaknesses.

## Other Assurances (3)

The third source of assurance utilises other activity carried out by the Internal Audit team outside of the approved plan of work. This could be counter fraud reviews, investigations, responding to control failures or advisory work.

This Strategy also seeks to maximise the use of the assurances which are available from other sources and avoid duplication where possible. In particular, where services are provided jointly with **other councils**, agreements will be sought with their internal audit teams to rotate and share internal audit coverage.

ISA610 makes it harder for **external audit** to place reliance on internal audit work to meet their responsibilities. Instead arrangements will be explored to maximise the use that can be made of their work as a source of assurance for the Annual Audit Opinion.

## General Organisation Awareness (4)

The other roles of the Head of Finance and Audit, outside of being the Chief Audit Executive, give the post-holder the opportunity to obtain other information to inform the Annual Audit Opinion. These roles and activities include:

- Financial information feeding into the Medium-Term Finance Strategy and Statement of Accounts.
- Facilitating discussions at the Chief Executive’s Assurance Group and development of the Annual Governance Statement.
- Leading on the collation and presentation of evidence for the 6 monthly risk management reports.
- Discussions with external auditors and inspectors.
- Work as a member or lead officer on corporate projects.

The size and culture of the Council also leads to a general good flow of information about governance, risks and controls, particularly across the wider management team, which includes the Head of Finance and Audit.

### 3. Quantity of Audit Work

The amount of work needed from the Internal Audit Activity to support the Annual Audit Opinion is left to the discretion of each organisation. In determining the level of work needed the following have been considered:

#### Assurances available from other sources

As outlined above other sources of assurance will be used to inform the Annual Audit Opinion on top of the work of the Internal Audit team.

#### Trends in the Profession

The CIPFA audit benchmarking club calculated that on average members were delivering 3 days of mainline audit per £m of Gross Expenditure in 2014/15. The analysis was based on 65 councils of all types. A similar level for this Council would be **180 days** of mainline audit work based on the Gross Expenditure for the General Fund and Housing Revenue Account in 2017/18.

An analysis has been carried out of the annual plans of 50 (25%) district council audit teams for 2018/19. The table below summarises how many pieces of work were used to support the Annual Audit Opinion.

Number of Pieces of work	No of Councils	
Up to 15	8	16%
16-20	8	16%
21-25	21	42%
26 to 30	6	12%
31 or more	7	14%
	<b>50</b>	

On average the Annual Audit Opinions were based on **21** individual audits assurances from **257** days of work. However, there was a significant variation on levels of coverage and the nature of the audit assignments and many councils no longer specific their audit plans in terms of the number of days.

#### Local Factors affecting the Level of Work needed

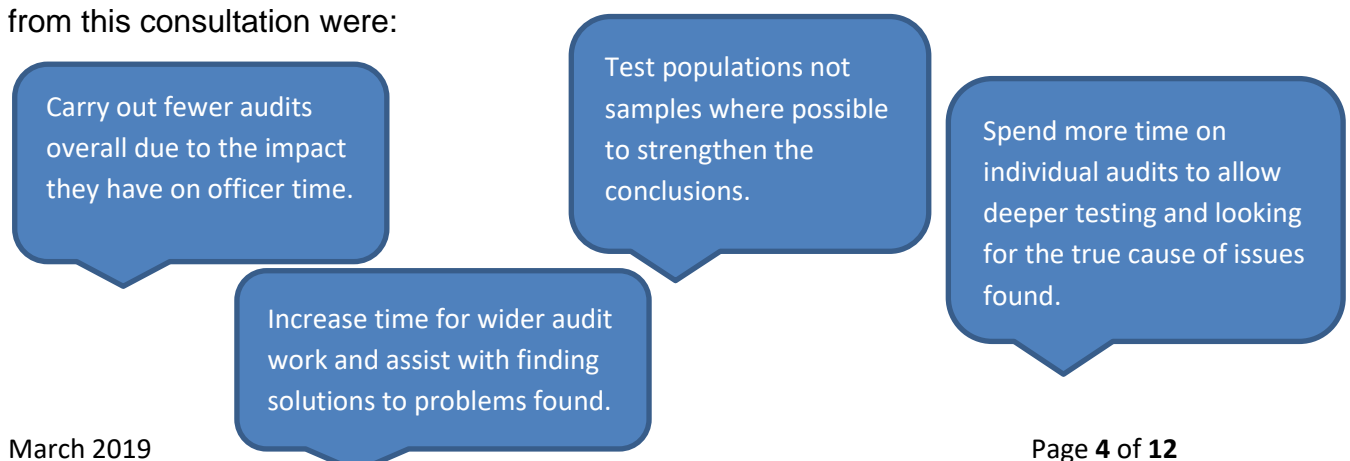
There are local factors which affect the level of audit work needed at any organisation. The South West Audit Partnership (SWAP) have piloted a model to allow Senior Managers to consider where their organisation sits within the model

and ultimately the effect on the level of audit work needed. The table below gives an assessment of where Fareham Borough Council sits in relation to these factors and other local factors.

	SWAP Model	Other factors
<b>FBC Factors decreasing the need for audit</b>	<p>There is a corporate plan which sets out clear aims and objectives. The council has a sustained track record of achieving its objectives, on time and within budget.</p> <p>There is a mature, council-wide, risk management framework in place.</p> <p>Financial management is strong with both internal and external audit finding nothing significant to report for at least three years. Financial challenges are met robustly, positively and effectively with a clear and achievable medium-term financial plan.</p> <p>The Counter fraud framework is strong with effective counter fraud measures in place. Action is taken where incidents of fraud occur.</p> <p>No significantly adverse report, by an outside agency has been received by the council in the last three years (e.g. external audit, local government ombudsman, information commissioner)</p> <p>Staff turnover is low to moderate, with most senior and middle managers remaining in post for at least three years.</p> <p>Internal audit rarely offer 'no' or 'very limited' assurance at the end of their reviews.</p>	Structures and processes of the council had been undergoing a significant period of change (Vanguard reviews) but is now stabilising.
<b>FBC Factors increasing the need for audit</b>	The council is in a state of flux, with regular restructures and reorganisations taking place.	Funding of the Council has been significantly reduced and the risk appetite has had to increase as a consequence.

### Consultation with Managers

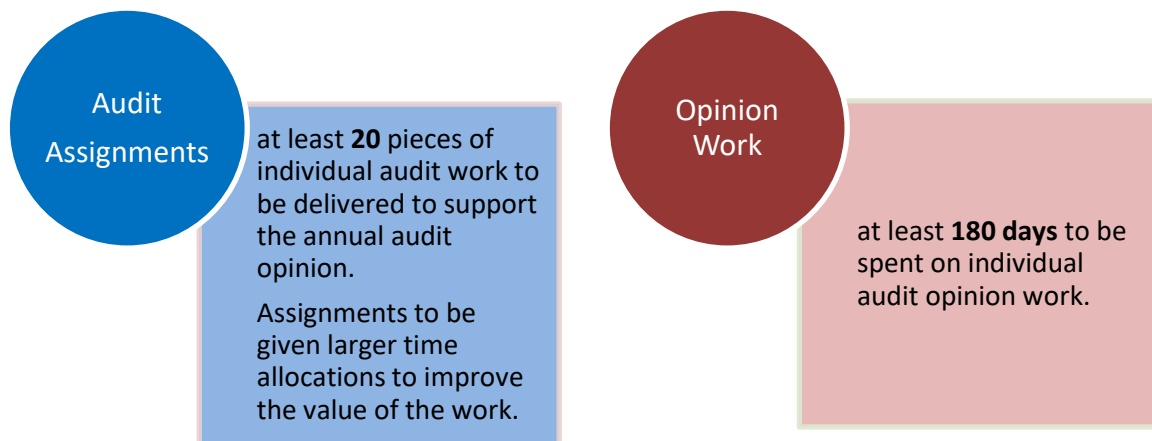
The views of the FBC Council managers were previously sought as to the nature and level of work they would like to see, and how the Audit Service fits into the "Vanguard" approach being adopted by the Council. The key messages arising from this consultation were:



## Proposed Quantity and Type of Audit Work

This Strategy therefore seeks to maximise the value of the Audit Service to the organisation by delivering a balance of **audit opinion work** and **wider audit work** and continuing to use other sources of assurance to support the Annual Audit Opinion.

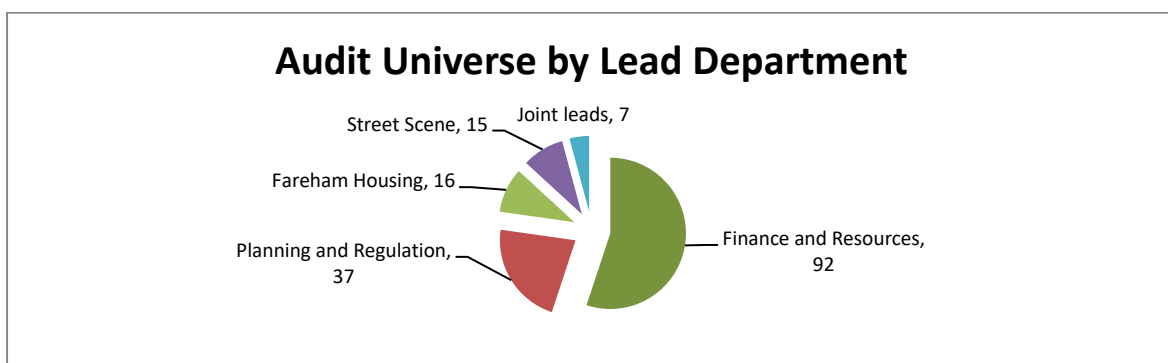
However, in setting the audit plan each year the following rules will be applied to ensure the plan is in line with trends in the profession, managers' requests and the factors affecting the local control framework:



## 4. Audit Opinion Work Priorities

Individual audit opinion work culminates in a service or system being assigned an audit assurance rating. This is based on the adequacy and effectiveness of controls found during the audit. The scale of opinions being used is set out in the Internal Audit Charter.

An **audit universe** is maintained of the services delivered by the Council plus the governance arrangements and systems in place which support the delivery of the services. The universe was last updated in January 2019 and captured **167** potential audit subjects. The split of these subjects by the lead department is shown below:



This Strategy requires a mix of audit types and departments to be included in the programme of work each year to support all the components of the Annual Audit Opinion. The table below shows a breakdown of the audit universe by type of audit and how these will feature in the programme of work.

<b>Treatment of Types of Audit when Setting the Annual Programme of Work</b>			
Type of Audit	Number in the FBC audit universe	Minimum Number to cover each year	Notes
<b>Fundamental Systems</b>	12	4	All to be covered in a 3-year cycle.
<b>Corporate, Specialist, Governance &amp; Risk</b>	29	1	One subject to be covered each year to support the governance opinion.
<b>Computer</b>	34	2	IT systems supporting a fundamental system to be reviewed on a cyclical basis, usually with one being covered each year. 14 of the computer audits are currently included in the cycle.
<b>Services and Systems – High Risk</b>	25	5	All subjects to be covered in a 5-year cycle.
<b>Services and Systems – Other</b>	67	2	Selected each year on the basis of: ~ When last looked at and previous assurance opinion ~ Whether the service has been subject to a vanguard intervention ~ Other recent changes or issues arising ~ Managers preferences
	<b>167</b>	<b>14</b>	

### **Fundamental Systems**

The fundamental systems are those which are critical to the expenditure and income controls of the council and therefore will have an impact on the reliability of the Council’s Statement of Accounts. Twelve of these have been identified, as listed in [Appendix 2](#). In agreement with External Audit these audits will be carried out on a 3-yearly cycle.

### **High Risk Audits**

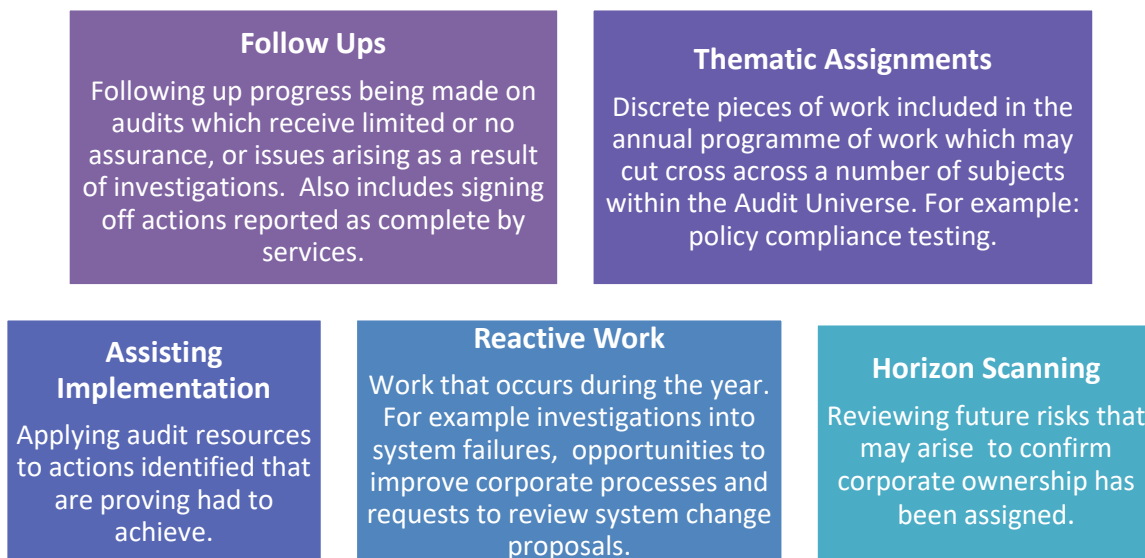
It is not possible with the current level of resources to audit all the subjects in the audit universe. Therefore, a risk assessment has been carried out to identify those subjects which are considered to be of high risk to the Council and therefore warrant a fresh audit opinion every 5 years.

Twenty-five of these have been identified as listed in [Appendix 2](#) along with the reason for them being considered high risk. It should be noted that this is based on *inherent risk* and is not a reflection of the control environment of those services. This list is reviewed annually considering budget and service changes and findings arising from thematic work.

## 5. Wider Work Priorities

This Strategy requires that time be included in the annual programme of work to complete work which is relevant to the overall Annual Audit Opinion but which will not itself result in an individual audit opinion.

The focus of this work in particular is to use the Internal Audit Service to assist with finding proportionate solutions to weaknesses identified and confirming these are in place. The diagram below gives a description of the types of activity that falls into this group of work.



## 6. Resourcing the Strategy

The Head of Finance and Audit will be responsible for setting a programme of work each year in accordance with this Strategy and reporting on the progress and findings on the programme to the Audit and Governance Committee. The programme will include contingency time which can be added to the allocation for individual assignments if issues are found during the audit.

Resources from the In-house Audit, Fraud and Assurance team will be used to deliver most of the **Audit Wider work** and **Other Assurances work**.

Bought in resources will mostly be used for the **Audit Opinion** work to provide an independent opinion on processes which the in-house team may have been involved in setting up. It will also help ensure delivery of this work if a major investigation occurs. However, the in-house team will provide day to day support for the delivery of this work including help determine any actions that are needed.

<b>Summary of how the Audit Work Activities will be Resourced</b>		
	Bought in Services	In-House Resources
<b>Audit Opinion Work</b>	Delivery of programme of assignments in consultation with Head of Finance and Audit	Support the programme of assignments including providing data extractions for testing, and liaising with service on appropriate action to be taken.
<b>Audit Wider Work</b>	Assist with Thematic reviews and follow ups when required.	Lead on recommendation management, horizon scanning and reactive work. Carry out thematic reviews and follow ups as time allows.
<b>Other Assurances</b>		Compile the other assurances



**Mapping of the Groupings of Audit Work to the Elements of the Annual Head of Audit’s Opinion**

	<b>Control Opinion</b>	<b>Governance Opinion</b> (including information technology governance and ethics objectives)	<b>Risk Management Opinion</b> (including fraud)
<b>Audit Opinion Work</b>	Fundamental System audits Services and Systems audits Computer system audits	Corporate and partnership audits Contract and specialist audits Governance audits Computer strategy / Information audits	Risk Management audits Fraud reviews
<b>Audit Wider Work</b>	Recommendation Surveys Assisting implementation Audit Follow Ups Investigation Follow Ups	Themed Assignments Joint / Collaborative reviews Grant certifications Annual assurances Horizon Scanning	
<b>Other Assurances</b>	Reactive work including investigations External audit testing outcomes	External Assurances Partnership coverage by neighbouring councils	Counter fraud reviews
<b>General Awareness</b>	Wider Management team discussions Section 151 Group Assurances	Annual Governance Statement assurances Medium Term Finance Strategy	External audit identification and assurance of risks Risk Management progress reports Project teams

The Standards requirements from Internal Audit Activity:

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of **governance, risk management and control**. (2450)

The internal audit activity must assess whether the **information technology governance** of the organisation supports the organisation's strategies and objectives. (2110.A2)

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's **ethics-related** objectives, programmes and activities. (2110.A1)

The internal audit activity must evaluate the potential for the occurrence of **fraud** and how the organisation manages fraud risk. (2120.A2)

The Fundamental and High-Risk Audits

**Fundamental System Audits**

Payroll and Employee Expenses
Accounts Payable
Banking
Income Management
Accounts Receivable
Main Accounting System and Budgetary Control
Capital Expenditure & Accounting
Treasury Management
Fixed Assets
Housing Rents
Local Tax Collection
Benefits

**High Risk Audits**

	Reason Assessed as High Risk
Tenancy Management	Gross Expenditure budget for 2019/20 is over £1million
Homelessness	
Property Maintenance and Inspections - Council Housing	
Street Cleansing	
Household Waste Collection	
Recycling	
Parks and Open Spaces	
Ferneham Hall	
Parking Enforcement	
Daedalus	
Local Plan	
Building Control	
Planning Applications	
Trade waste and recycling	
Parking Strategic Management	
Commercial Estates	Higher Risk Spend is over £500,000
Housing Communal Services	
Housing Grants and Home Improvements	
Regeneration Projects	
Property Maintenance and Inspections - Non- Housing	

	Reason Assessed as High Risk
<b>Vehicle Management</b>	
<b>Sheltered Housing</b>	Higher Risk Income is over £250,000
<b>Holly Hill Leisure Centre</b>	
<b>Developers Contributions</b>	Potentially high-income process with high reputational risk and risk of penalties
<b>Welborne</b>	High Profile project

Classification of Higher Risk Spend - Gross Expenditure less employee costs, capital charges and support services costs.

Classification of Higher Risk Income - Gross income less government grants and other grants.