

FAREHAM

BOROUGH COUNCIL

AGENDA

AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 11 March 2019

Time: 6.00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor J E Butts (Chairman)

Councillor S D Martin (Vice-Chairman)

Councillors P J Davies

T Davies

Mrs T L Ellis

Mrs C Heneghan

J G Kelly

Deputies: I Bastable

J S Forrest



1. Apologies

2. Minutes (Pages 5 - 8)

To confirm as a correct record the Minutes of the Audit and Governance Committee meeting held on 26 November 2018.

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 Annual Certification Report (Pages 9 - 20)

To consider a report by the Head of Housing and Benefits on the findings from the 2017-18 certification work carried out by the External Auditors (Ernst and Young).

7. External Audit Annual Plan and Fee (Pages 21 - 58)

To consider a report by the Director of Finance and Resources on the External Auditor's Annual Plan of work for 2019/20 and proposed Fee for the audit of the 2018/19 accounts.

8. Risk Management Monitoring Report (Pages 59 - 92)

To consider the latest six-monthly Risk Management report from the Head of Finance and Audit.

9. Treasury Management Policy and Strategy (Pages 93 - 118)

To consider a report by the Director of Finance and Resources on the Treasury Management Policy and Strategy for 2019/20.

10. Internal Audit Charter and Strategy (Pages 119 - 146)

To consider a report by the Head of Finance and Audit on the Internal Audit Charter and Strategy.

11. Internal Audit Annual Plan (Pages 147 - 152)

To consider a report by the Head of Finance and Audit on the Internal Audit Plan for 2019/20.

12. Internal Audit Progress Report (Pages 153 - 164)

To consider a report by the Head of Finance and Audit on the findings arising from

the latest internal audit work to be finalised and the progress being made on delivering the internal audit plan for 2018/19.

13. Constitution Update (Pages 165 - 178)

To consider a report by the Monitoring Officer on an update to the Council's Constitution.

14. Annual Report of the Committee (Pages 179 - 184)

To consider the annual report by the Head of Finance and Audit on the work of the Audit and Governance Committee during 2018/19 and the proposed work programme for 2019/20.



P GRIMWOOD
Chief Executive Officer

Civic Offices
www.fareham.gov.uk
11 March 2019

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

FAREHAM

BOROUGH COUNCIL

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

Date: Monday, 26 November 2018

Venue: Collingwood Room - Civic Offices

PRESENT:

Councillor J E Butts (Chairman)

Councillors: T Davies, Mrs T L Ellis, Mrs C Heneghan, J G Kelly and I Bastable (deputising for S D Martin)

**Also
Present:**



1. APOLOGIES

Apologies of absence were received from Councillor P Davies and Councillor S D Martin.

2. MINUTES

RESOLVED that the Minutes from the Audit and Governance Committee meeting held on the 17 September 2018 be confirmed and signed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

There were no announcements made at this meeting.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest made at this meeting.

5. DEPUTATIONS

There were no deputations made at this meeting.

6. BUSINESS CONTINUITY

The Committee considered a report by the Head of Building Repairs and Maintenance Services, on the Council's Business Continuity arrangements.

Members requested a future update on the implementation of the new Business Continuity Plan. The Head of Finance and Audit addressed the Committee to advise that an update will be provided through the Annual Governance Statement, which will be brought to the Committee as part of next year's Work Programme.

RESOLVED that the Committee note the contents of the report.

7. TREASURY MANAGEMENT PROGRESS REPORT

The Committee considered a report by the Director of Finance and Resources which sets out the mid-year review of the Treasury Management activity up to 30 September 2018.

RESOLVED that the Committee note the contents of the report.

8. CONSTITUTION UPDATES ANNUAL REPORT

The Committee considered a report by the Monitoring Officer which reviews the amendments to the Constitution since the 12 March 2018.

RESOLVED that the Committee notes the updates to the Constitution, since the 12 March 2018, as set out in Appendix A and B to the report.

9. INTERNAL AUDIT PROGRESS REPORT

The Committee considered a report by the Head of Finance and Audit on the Internal Audit Progress for 2018/19.

RESOLVED that the Committee notes Internal Audit's progress for 2018/19 to date.

10. REVIEW OF WORK PROGRAMME AND TRAINING PLAN

The Committee considered a report by the Head of Finance and Audit which reviewed the Committee's Work Programme for 2018/19.

Members asked whether some papers for the next meeting could be circulated early to give enough time to prepare for all the items on the agenda. Officers agreed to see if any of the planned items could be circulated earlier.

RESOLVED that the Work Programme for the rest of the municipal year, be approved.

(The meeting started at 6.00 pm
and ended at 6.50 pm).

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 11 March 2019
Report of: Head of Housing and Benefits
Subject: EXTERNAL AUDIT ANNUAL CERTIFICATION REPORT

SUMMARY

This report presents the findings from the 2017-18 certification work carried out by the External Auditors (Ernst and Young). The work covered the Housing Benefit Subsidy Claim.

The Audit and Governance Committee's areas of responsibility for External Audit include considering the external auditor's annual letter, relevant reports, and the report to those charged with governance.

RECOMMENDATION

It is recommended that the Committee:

- (a) consider the findings of the Annual Certification Report 2017-18 submitted by the Council's external auditors; and
- (b) comment on the findings as appropriate.

Appendix A: Annual Certification Report 2017-18

Background Papers: None

Reference Papers: Statement of responsibilities of grant-paying bodies, authorities, Public Sector Audit Appointments (PSAA) and appointed auditors in relation to claims and returns – issued by PSAA

Enquiries:

For further information on this report please contact Caroline Newman. (Ext 4645)

Certification of
claims and returns
annual report
2017-18

December 2018



Members of the Audit and Governance Committee

Fareham Borough Council
Civic Offices
Civic Way
Hampshire
PO16 7AZ

December 2018

Dear Audit and Governance Committee Members

We are pleased to report on our certification work. This report summarises the results of our work on Fareham Borough Council's 2017-18 claims.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified reporting accountants to certify the claims and returns submitted to them. From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. For 2017-18, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions.

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

We welcome the opportunity to discuss this report with you on 11 March 2019.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). 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 (updated February 2017)" 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.



01

Housing benefits subsidy claim



Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£18,990,175
Amended/Not amended	Amended – final value of claim £18,990,097. Subsidy decreased by £78.
Qualification letter	Yes

Local Government administers the Government's housing benefits scheme for tenants and claims subsidy from the Department for Work and Pensions (DWP) towards the cost of benefits paid to claimants. We certify that subsidy claim.

The certification guidance requires reporting accountants to follow a programme of work specified by DWP. Detailed case testing is carried out on an initial sample of 20 cases per benefit type. More extensive '40+' or extended testing is undertaken if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims.

Matters that our testing identified are set out below.

Non HRA Rent Rebates

- Our initial testing identified one case (error value £0.02) where the Council had overpaid benefit as a result of miscalculating the claimant's weekly earnings. Our certification instructions required us to extend our sample to determine the potential impact and extent of errors. We tested all 23 non HRA Rent Rebate cases that had claimants with earnings. No further errors were detected.
- Our initial testing identified two cases where overpayments were misclassified on the subsidy claim form between eligible and technical overpayments. Our certification instructions required us to extend our sample to determine the potential impact and extent of errors. We tested all 31 non HRA Rent Rebate cases that had eligible overpayments, as they could have been impacted by this type of error. Two further errors were detected. The subsidy claim was amended to correct these errors. The impact was to reduce subsidy claimed by £632. This type of error would have no impact on benefit paid to claimants.

HRA Rent Rebates

- Our initial testing identified one case (error value £0.36) where the Council had overpaid benefit as a result of miscalculating the claimant's weekly earnings. Our certification instructions required us to extend our sample to determine the potential impact and extent of errors. We tested a further 40 HRA Rent Rebate cases that had claimants with earnings. No further errors were detected. We reported this matter to the DWP in our qualification letter. We are required to provide the DWP an extrapolation (or estimate) of the total impact of the overpayments. The extrapolated value of overpayments was £2.

Housing benefits subsidy claim (continued)

Scope of work	Results
Value of claim presented for certification	£18,990,175
Amended/Not amended	Amended – final value of claim £18,990,097. Subsidy decreased by £78.
Qualification letter	Yes

Rent Allowances

- Our initial testing identified one case (error value £8.54) where the Council had underpaid benefit as a result of miscalculating the claimant's weekly earnings. Our certification instructions required us to extend our sample to determine the potential impact and extent of errors. We tested a further 40 Rent Allowance cases that had claimants with earnings. No further errors were detected. We reported this matter to the DWP in our qualification letter.
- Our initial testing identified one case (error value £90.00) where the Council had overpaid benefit as a result of miscalculating childcare costs. Our certification instructions required us to extend our sample to determine the potential impact and extent of errors. We tested a further 40 Rent Allowance cases that had claimants with childcare costs. No further errors were detected. We reported this matter to the DWP in our qualification letter. We are required to provide the DWP an extrapolation (or estimate) of the total impact of the overpayments. The extrapolated value of overpayments was £276.
- Our initial testing identified one case (total value £5,611) where the Council could not provide proof of rent liability. The Council's data retention policy is to destroy documents after 9 years. The claim had been in payment continuously for a longer period. As the proof of rent liability was destroyed in accordance with the Council's policy, we did not undertake any extended testing. We reported this matter to the DWP in our qualification letter.

Modified Schemes (war pensioners)

- Our initial testing identified one case (error value £739.44) where expenditure has been misclassified as a result of miscalculating private pension income. Our certification instructions required us to extend our sample to determine the potential impact and extent of errors. We tested all 11 modified scheme cases that had claimants with private pension income. No further errors were detected. The subsidy claim was amended to correct this error. The impact was to increase subsidy claimed by £554. This type of error would have no impact on benefit paid to claimants.



02

2017-18 certification fees





2017-18 certification fees

The PSAA determine a scale fee each year for the certification of the housing benefits subsidy claim. For 2017-18, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) and are available on their website (www.psaa.co.uk).

Claim or return	2017-18	2017-18	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £	Actual fee £
Housing benefits subsidy claim	£18,391*	15,959	11,310	15,959

*We have proposed a scale fee variation of £2,432. This additional charge is as a result of additional extended testing performed in comparison to the baseline year in 2015-16. This variation has yet to be agreed with management and is subject to approval by Public Sector Audit Appointments Ltd.

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ED None

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 11 March 2019
Report of: Director of Finance and Resources
Subject: EXTERNAL AUDIT ANNUAL PLAN AND FEE

SUMMARY

This report brings to members' attention the Audit Plan from the Council's external auditors, Ernst & Young. The plan provides the Committee with a basis to review the proposed audit approach and scope of work for the 2018/19 audit (carried out in 2019/20) and to ensure that the work is in line with members' expectations.

The report also brings to members' attention the Planned Fee for the 2018/19 audit work. This reflects the tender sums submitted as part of the procurement organised by Public Sector Audit Appointments (PSAA) in 2017/18 to appoint the Council's external auditors for the next 5 years.

The Audit and Governance Committee's areas of responsibility for External Audit are:-

- a) to comment on the scope and depth of external audit work and to ensure it gives value for money.*
- b) to consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.*
- c) to advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.*

RECOMMENDATION

It is recommended that the Committee approves the 2018/19 Audit Plan, attached as Appendix A to this report.

Appendices:

Appendix A – Plan of Audit coverage of the year ending 31 March 19 (Separate Document)

Background Papers: None

Reference Papers: Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd.

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

Fareham Borough
Council
Audit planning report
Year ended 31 March 2019

February 2019



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

1 February 2019

Dear Audit and Governance Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

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

We welcome the opportunity to discuss this report with you on 11 March 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter
For and on behalf of Ernst & Young LLP

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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 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.



01

Overview of our 2018/19 audit strategy



Overview of our 2018/19 audit strategy

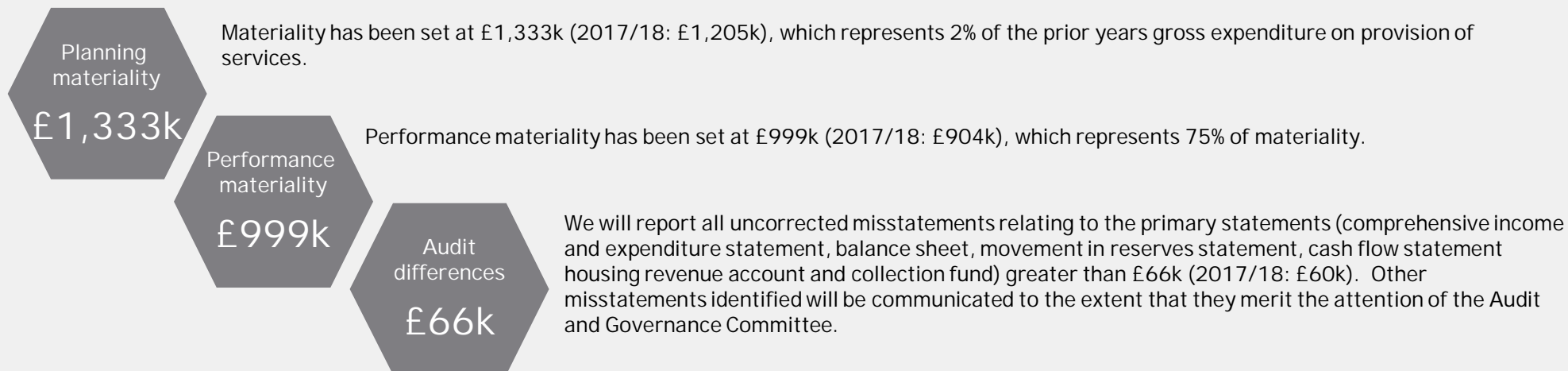
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue recognition, - capitalising revenue expenditure	Fraud risk	No change in risk or focus.	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. 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. Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.
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 administered by Hampshire County Council. The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus.	The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
NDR Appeals Provision Valuation	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 previous years we have identified errors above our audit differences threshold.
New Accounting Standards	Inherent risk	New risk identified this year.	IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts) applies from 1 April 2018. We will assess the impact of these new standards to determine whether they have been appropriately implemented by the Council.

Overview of our 2018/19 audit strategy

Materiality



Overview of our 2018/19 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- § Our audit opinion on whether the financial statements of Fareham Borough Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- § Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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.

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Audit team changes

Key changes to our team.



Jason Jones, Manager

- Ø Jason is a Manager within the UK&I Assurance practice, with over 2 years experience of UK LG audits. Jason also has over 11 years experience of South African LG audits and was the Audit Manager on Fareham Borough Council for the 16/17 audit. He will be the key contact for your Finance Team.
- Ø He is a member of The South African Institute of Chartered Accountants (SAICA).



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02 Audit risks



Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue recognition – capitalising revenue expenditure

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. We are focussing our testing on capital additions (£23,108m in 2017/18).

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This could result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

The manipulation of capitalising expenditure could also occur through management override of controls.

What will we do?

Our approach will focus on:

- ▶ For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- ▶ Journals testing – we will use our testing of Journals to identify transactions moved from revenue to capital.

To further respond to the risk of management override we will focus on:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- ▶ Reviewing accounting estimates for evidence of management bias.
- ▶ Evaluating the business rationale for significant unusual transactions

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Pension Liability Valuation

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 administered by Hampshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £61,165k.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What will we do?

We will:

- Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hampshire County Council.
- Assess the work of the Pension Fund actuary (AON Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; and
- Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus (continued)

What is the risk/area of focus?

NNDR Appeals Provision

The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements. In previous years we have identified errors above our audit differences threshold.

What will we do?

We will:

- Review the calculation of the provision for accuracy.
- Consider the work performed by the Council expert, Analyse Local and understand the assumptions used in their calculation.
- Perform post year-end review of appeals settled to determine whether the revised rateable value and effective date of the appeal are in line with the provision.
- Ensure the Council has amended the provision for any Business Rate reliefs awarded.

IFRS 9 Financial instruments

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.

We will:

- Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Consider the classification and valuation of financial instrument assets;
- Review new expected credit loss model impairment calculations for assets; and
- Check additional disclosure requirements.

Other areas of audit focus (continued)

What is the risk/area of focus?

IFRS 15 Revenue from contracts with customers

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

What will we do?

We will:

- Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This will include Local Authority Trading Companies consolidated into the Authority's Group Accounts;
- Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Check additional disclosure requirements.



03

Value for Money Risks





Background

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

For 2018/19 this is based on the overall evaluation criterion:

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

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

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

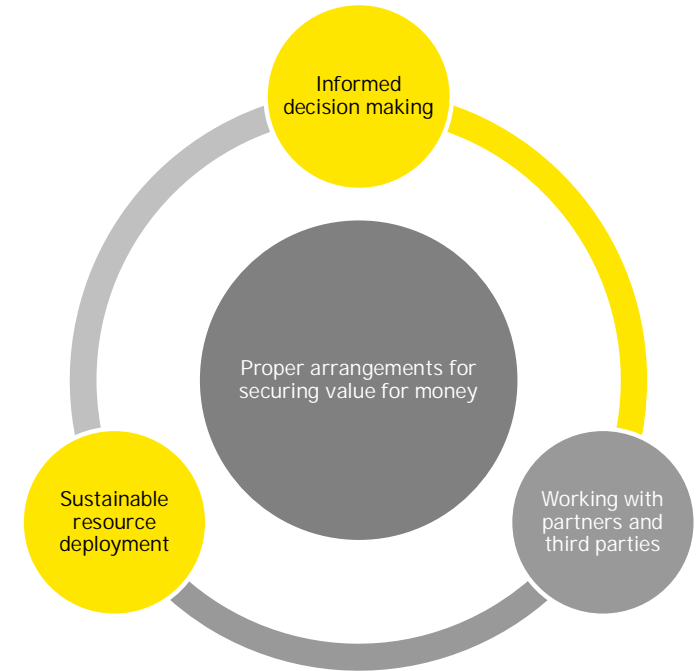
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At the time of our planning, this has resulted in no significant risks relevant to our value for money conclusion.





04

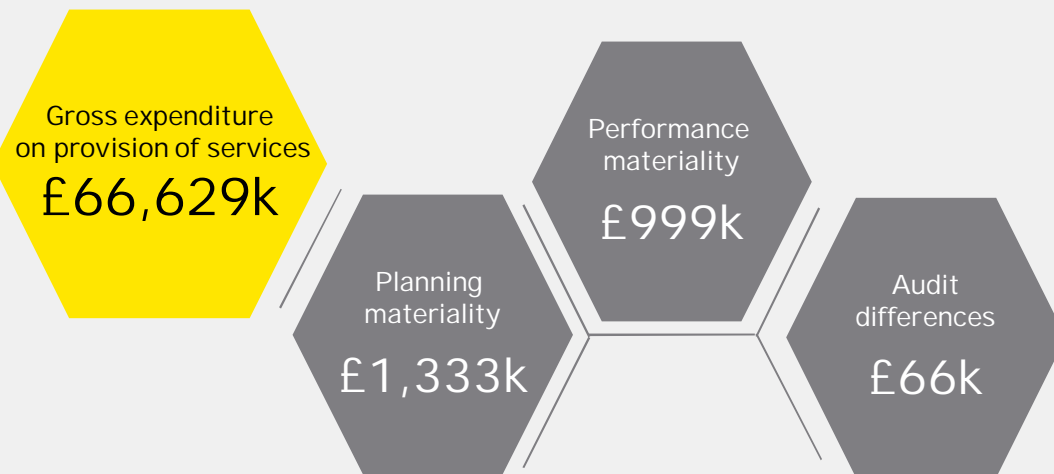
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £1,333k. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit and Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £999k which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Governance Committee, or are important from a qualitative perspective.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

Internal audit:

We will regularly meet with the Head of Finance and Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Our Audit Process and Strategy (continued)

Earlier deadline for production of the financial statements

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

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

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

To mitigate this risk we will require:

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

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

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

To support the Council we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2018/19 financial year.
- Work with the Council to improve the use of EY Client Portal, this will:
 - Streamline our audit requests through a reduction of emails and improved means of communication;
 - Provide on-demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.



06

Audit team



Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The area where either EY or third party specialists provide input for the current year audit is:

Area	Specialists
Pensions disclosure	EY Actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07 Audit timeline





Audit timeline

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 2018/19.

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.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	November		
	December		
	January		
Testing of routine processes and controls Interim audit testing	February		
	March	Audit and Governance Committee	Audit Planning Report Interim Audit Update
	April		
	May		
	June		
Year end audit Audit Completion procedures	July	Audit and Governance Committee	Audit Results Report Audit opinions and completion certificates
	August		
	September	Audit and Governance Committee	Annual Audit Letter



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we have not undertaken any non-audit work, therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018

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 ended 1 July 2018 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



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09

Appendices



Fees

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

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee - Code work (1)	37,137	37,137	48,230
Total audit	37,137	37,137	48,230
Other non-audit services not covered above (Housing Benefits) (2)	N/A	N/A	18,391
Total other non-audit services	N/A	N/A	18,391
Total fees	37,137	37,137	66,621

All fees exclude VAT

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; and
- ▶ The Council has an effective control environment.

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.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Note:

(1) Our 2018/19 Code work includes additional planned procedures highlighted in section two of this report to address the new accounting requirements of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers. As at the date of our planning report the Council is yet to evidence their assessment of the impact of these standards, and so we cannot currently quantify the expected scale fee variation for these additional procedures. We will agree this with management, depending on the identified impact of the new standards and any additional fee is subject to agreement by the PSAA.

(2) To obtain sufficient assurance over housing benefits expenditure and subsidy income in the Council's financial statements, we will need to undertake some elements of the work which also form part of the housing benefit subsidy claim certification process. This work would previously have been covered by the certification fee and used additionally to provide assurance for the main audit. As we are no longer the reporting accountant for the Council's subsidy claim, we will need to consider the requirement for a scale fee variation to cover the performance of this work as part of the main audit for 2018/19.



(3) Our 2017/18 Housing Benefit Certification final fee includes £2,432 in respect of additional work required to review and capture extended testing. The proposed additional fee is subject to approval by the PSAA.

Appendix B



Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit and Governance Committee



Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report

Required communications with the Audit Committee (continued)

Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report



Required communications with the Audit Committee (continued)

Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Planning Report</p> <p>Audit Results Report</p>
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit results report</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of 	<p>Audit results report</p>
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	<p>Audit results report</p>

Appendix B

Required communications with the Audit Committee (continued)

Our Reporting to you

Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the financial statements. Reading other information contained in the financial statements, the Audit and Governance Committee reporting appropriately addresses matters communicated by us to the Audit and Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 11 March 2019
Report of: Director of Finance and Resources
Subject: RISK MANAGEMENT MONITORING REPORT

SUMMARY

In March 2017, the Audit and Governance Committee approved a new Risk Management Policy based around a set of principles rather than a formal framework of registers. The policy requires evidence of risk management to be compiled every six months as proof that the policy is effective. This is the latest six-monthly report under the new policy.

*The Audit and Governance Committee's area of responsibility for Risk Management is: -
a) to monitor the effective development and operation of risk management in the Council.*

RECOMMENDATION

It is recommended that the 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 Audit and Governance Committee approved a new Risk Management Policy (See Appendix E) based around a set of principles rather than a formal framework of registers. Under the new process, discussions are held with managers to gather evidence that the new policy is being implemented. In particular, the policy would be considered to be effective if managers are able to cite examples of:
 - (a) What their top risks are and any new or changes in risks and opportunities that have occurred in the year
 - (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. This report summarises the evidence gathered from the round of discussions held during December 2018 and January 2019.

MANAGERS COVERED BY THIS REPORT

3. Discussions are held every 6 months with half of the Heads of Service in the Council, so each manager is interviewed once a year. The Heads of Service covered in the 2 sets of interviews each year are listed in the table below, which highlights those services covered by this report. This will therefore affect which risk topics feature in this report.

Managers Interviewed for the last report	Managers Interviewed for THIS report
Head of Development Management (LS)	Head of Planning Strategy & Regeneration (CB)
Head of Building Control (JS)	Head of Environmental Health (IR)
Head of Building Repairs and Maintenance (KW)	Head of Street Scene (MB)
Head of Housing and Benefits (CN)	Head of Leisure and Corporate Services (LA)
Head of Finance and Audit (EH)	Head of Democratic Services (LU)
Head of HR and ICT (SR)	Head of Coastal Partnership (LC & JR)
Welborne Strategic Lead (SW)	Head of Property Services (GH)
	Welborne Strategic Lead (SW)

STRUCTURE OF THE EVIDENCE GATHERED

4. Detailed notes were taken of each discussion. The topics of the discussion are listed in Appendix D. Examples were then taken from the discussions for use to demonstrate that risk management activity is happening. These are summarised in the appendices using 3 evidence themes of:
 - (a) Appendix A - New actions taken *anticipating* risks or opportunities
 - (b) Appendix B - New actions taken *reacting* to risks or incidents
 - (c) Appendix C - Risks where action is *still needed*

5. We also followed up on most of the risks highlighted last time where “action is still needed”. These are highlighted by “(Update)”.

APPENDICES

Appendix A: [Examples of New Actions Taken ANTICIPATING Risks or Opportunities](#)

Appendix B: [Examples of Actions Taken REACTING to Risks or Incidents](#)

Appendix C: [Risks noted where further actions are still needed](#)

Appendix D: Detailed List of Risks and Actions covered in the Manager Discussions

Appendix E: FBC Risk Management Policy (Separate Document)

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. (Ext 4344)

Appendix A – Examples of new actions taken ANTICIPATING risks or opportunities


Risk or Opportunity	Actions taken
<p style="text-align: center;">Ferneham Hall Redevelopment</p> <p>Ferneham Hall is being redeveloped to deliver the vision of what new arts and entertainment facility is needed for Fareham. An objective of the redevelopment is also to reduce the level of subsidy needed to support the facility.</p> <p>A joint procurement for operators of either Ferneham Hall, both Leisure Centres or both was deemed appropriate using knowledge from other procurements in nearby Local Authorities that have taken place recently.</p> <p>There are a number of risks associated with the redevelopment which include:</p> <ul style="list-style-type: none"> • The new building does not meet the needs of the borough and is not commercially viable. • The impact of closure of the building on the customer base (and users of near-by car parks). • The Council achieves a poor deal from the operator of the Hall. • The performance of the current leisure centre contracts is affected by the procurement. 	<p>Vision</p> <p>Leisure/Property/Finance – An Officer group was set up to ensure the projects were meeting FBC objectives; including the new Ferneham Hall fitting in with the updated Civic Quarter plans.</p> <p>Leisure Services - The Ferneham Hall Vision has been developed and was approved by Executive in July 2018.</p> <p>Corporate Services – A consultation on the future requirements for a new arts and entertainment facility to replace Ferneham Hall was held between August and October 2018. The findings from this was then used to expand the vision to meet user and potential hirer preferences; particularly in terms of capacity, and the flexibility of studio space.</p> <p>Leisure Services - the vision was updated and approved again at Executive in December 2018.</p> <p>Operator</p> <p>Leisure/Procurement – A consultant has been employed who has vast experience in culture and leisure procurements. They have successfully managed the procurement for an employment agent who will act on behalf of the Council during the design and build of Ferneham Hall.</p> <p>Corporate - We have the option to extend the contract of the Employers agent to assist with the Civic Quarter Master plan.</p> <p>Leisure/Procurement – A procurement process for the operator(s) is underway which gives bidders options to bid for the entertainments hall, or leisure centres or both. The contract will be awarded by June and the winning operator will also be involved in the Design and Build at Ferneham Hall.</p>
<p style="text-align: center;">Venue for Election Count</p> <p>Ferneham Hall is scheduled to close for a period to allow for the refurbishment to take place. Ferneham Hall is very convenient being right next to the Civic Offices.</p> <p>A new venue has therefore been needed that is suitable to handle the security of the election boxes and the count on the day.</p> <p>The next local elections are scheduled for May 2020, and there is a slight risk that additional elections or referenda may be needed in 2019.</p>	<p>Corporate – A suitable alternative venue has been sourced, which was previously the back-up location, so a new backup location has also been sourced. A checklist of things that needs to be checked with the new venues is being worked through e.g. Health and Safety, and security arrangements.</p> <p>Democratic Services – A communication plan for all candidates and agents developed. will also be</p> 

Risk or Opportunity	Actions taken
<p style="text-align: center;">Daedalus 75</p> <p>A special community event at Daedalus is being planned for June 2019 to mark the 75th anniversary of the D-Day landings. The event will have a potential 10,000 visitors over 2 days.</p> <p>Fun fair rides, children's activities, market stalls and stage performances from local groups in arena performances as well as aircraft displays, static and potentially in-flight, are all set to take place as part of the Daedalus celebrations. It is hoped that the event will include a Red Arrow display, a Battle of Britain memorial flight and helicopter flights offered by an external company.</p> <p>This will require project risk management to cover all the potential risks of failure, reputation damage and risks to personal health and safety. The potential volume of visitors means that additional parking needs to be sourced offsite.</p> 	<p>Corporate – A Steering group comprising of Councillor Cartwright as the Chair, The Director of Finance and Resources, Head of Leisure and Corporate Services, Leisure and Community Manager and Head of Environmental Health is in place to take advantage of any opportunities, and to plan and mitigate against eventualities. The group will invite officers with areas of relevant expertise to inform the event (e.g. Health and Safety and Parking).</p> <p>Corporate – Regular internal meetings and briefings being held to draw up and review the event plans and contingency arrangements. Roles and responsibilities in the preparation and on the day made clear.</p> <p>Environmental Health – SAG meeting (Safety Advisory Group) set up to review the Daedalus 75 event plans in respect of arrangements to manage the Health and Safety risks of the events.</p> <p>Corporate Services – Manage the publicity for the event and relationships with users of Daedalus, including working jointly with the airport operators to resolve issues.</p> <p>Leisure Services – Numerous risk assessments to be carried out for each event to mitigate the risk of failure.</p> <p>Corporate – Decision made that if there are any event driven flights, a flight director will be employed. A private security firm is also being commissioned for the event.</p>
<p style="text-align: center;">Reducing the Impact of IT Migration on the Coastal Partnership</p> <p>Havant Borough Council had entered into a contract with Capita, along with 5 other Councils, to provide a number of services including IT.</p> <p>The Coastal Partnership was therefore affected by the project to migrate from IT services provided by Hampshire County Council to services from Capita, which had a number of challenges along the way.</p> 	<p>Coastal Partnership – 50 new laptops were purchased to make a mobile IT solution. Secure and robust storage was set up for periods when systems were not available. This used the cloud based Kahootz system, a local government approved cloud, which was adopted corporately by Havant Borough Council.</p> <p>This allowed live sharing of images and reports across the different teams and gives the ability to create restricted access work spaces. This was so successful that Kahootz continues to be used for collaborative working after full implementation.</p> <p>Coastal Partnership – A secure managed build was created by Capita and loaded onto the laptops. The connection to the Capita network is made secure through 2-way authentication when working remotely. The HBC network is now being used for archiving project records.</p> <p>Coastal Partnership – The new system has helped with providing a business continuity solution. Mobile working using laptops, iPads and iPhones allows easy switch of staff to different locations. Notebooks would be utilised if the IT system fails.</p>

Risk or Opportunity	Actions taken
<p align="center">Coastal Partnership Health and Safety</p> <p>Construction is dangerous, especially along the coast, and the team are very passionate that the Health and Safety (H&S) of their staff, customers and the general public remains embedded in their working days. Health and Safety is paramount and an integral part of the 55-strong team culture, ethos and procedures. Safe systems of work are in place and regularly reviewed.</p> <p>The Coastal Partnership managers have therefore been working to obtain assurance that the team are remaining proactive not reactive to any potential risks and are retaining a happy and healthy workforce.</p> <p>Their target is to exceed industry standards and continually review best practice.</p> 	<p>Coastal Partnership – The Coastal Partnership has just completed an independent audit review for every area covering both construction / out of office risks and risks in the office environment. Many of the staff completed an anonymous questionnaire covering their perceptions of the way that H&S risks are managed. These covered: Training and supervision, Safe work procedures, Work force consultation, Reporting safety, Management commitment, Injury illness and ill health and return to work, and overall feeling</p> <p>These have been reviewed by an independent advisor who also carried out site visits to gather further evidence. The advisor is providing a report including a gap analysis of things to address. The managers will then develop an action plan to address the issues raised.</p> <p>Coastal Partnership – In the Portsmouth office there are a series of white boards; the first of which is marked for Health & Safety information. The board is near the printer and the managers use it to remind the team of Health and Safety messages (e.g. keep hydrated during the hot weather), including incidents that have happened elsewhere in the industry (e.g. the danger of sneaker waves).</p> <p>The managers walk the boards each week as part of the weekly discussion with staff and pick up any issues listed on them.</p> <p>A similar board system is planned for the Havant Office.</p> <p>Coastal Partnership – An enhanced online training package is being developed as part of embedding the thinking into the culture of the team, which will include an induction module and specific H&S topics.</p> <p>Coastal Partnership – A service risk register is maintained for each team which is reviewed at management meetings. Clear responsibilities laid out for tasks on the register.</p> <p>Corporate – A visit will be organised to see if there are any lessons that can be learned from the partnership that could be applied to other Council services.</p>
<p>Management of Health and Safety at Community Centres</p> <p>Annual Health checks are legally required at all our Community Centres, although under terms of the lease most Centres should do their own checks (including Fire Risk Assessments).</p> <p>It is our responsibility to ensure these are completed correctly and any issues managed. Work has been carried out to establish a robust regime to ensure this happens.</p>	<p>Leisure Services – Annual health checks of Community Centres are being conducted, including governance arrangements; the full extent of the check is governed by the lease agreement which identifies areas of responsibilities. This also applies to Fire Risk Assessments.</p> <p>Any Governance or Health and Safety concerns are highlighted to One Community who offer support to these Associations.</p> <p>Leisure Services – Where the Council retains a level of responsibility for maintenance of a building Property Services are instructed to conduct an annual inspection. Additional quarterly checks are conducted by the Property Services Manager and the Leisure Manager.</p>



Risk or Opportunity	Actions taken
<p style="text-align: center;">Building Resilience into the Coastal Partnership</p> <p>There are a number of other Coastal Partnerships being set up which could become competition to the East Solent Coastal Partnership or could become potential clients for their services.</p> <p>There is therefore a need to continually evolve and to consider a more commercial approach for the partnership and work on strategies to help maintain stability for the teams.</p> 	<p>Coastal Partnership – The teams have been identifying what they do well and what may be viable to sell as a service. Services such as surveying skills, project management, working with for other agencies e.g. Highways, could save other authorities paying inflated consultancy fees.</p> <p>For example, the teams have invested in the use of a drone, to help with survey work. They have also invested in visualisation software.</p> <p>They will then be considering marketing strategies and building on ways, such as utilising digital tools, to maximise efficiency.</p> <p>Corporate – As part of the Opportunities Plan, FBC will be reviewing skills available in the partnership and identify any which we currently purchase from external consultants.</p> <p>Coastal Partnership – Developing strong supply chain framework with pain and gain share arrangements.</p>
<p style="text-align: center;">Preventing the New Procurement Rules leading to inappropriate spending behaviours (Update)</p> <p>As reported in the last 2 reports the Council has been developing a new set of Contract and Procurement. This was in response to the learning from the vanguard review of “buying stuff” which indicated that the old procurement process was bureaucratic making it difficult for Heads of Service to get what they need when they need it. In addition, a waiver is often required for high value purchases which takes the valuable time of senior managers.</p> <p>So, the opportunity has been taken to look at the whole process to see what could be changed, and how, to make ‘buying stuff’ a much simpler process for all. As a result, a new policy has now been adopted for the Council.</p> <p>However, whilst the new rules now give more flexibility to managers about spending decisions, it also brings with it the potential risk of an increase in maverick spending. The thresholders have also been raised before formal justification of spend is required.</p> 	<p>Democratic Services – The procurement team have been holding workshops to roll out the new procedures to all the services and cover “what good likes like” under the new policy.</p> <p>Democratic Services - Forms are currently being devised by services to document the justification behind their significant purchases, why the purchase was the right choice and the reasoning and thought process behind the decision.</p> <p>Democratic Services / Finance – Training sessions have been provided to the procurement team and Finance Business partners. They are now tasked to work with services to identify situations where spend with suppliers may need to be reviewed, justified or retendered. They also form part of the working group with the service for significant purchases and must all agree any preferred procurement paths.</p> <p>IT / Finance - A tool has been developed as a control measure to allow managers and FBP’s to more easily see how much is being spent with suppliers. This is currently being rolled out and supported by training and guidance.</p> <p>Corporate – The new Policy includes formal rules to provide oversight of adherence to the Policy. These includes:</p> <ol style="list-style-type: none"> a) Publishing any significant purchase in the members newsletter; b) Annual audit testing of suppliers above and below the threshold; c) An Annual report to the Chief Executive’s Management Team summarising the routes to market used in the year and the results of the audit testing. d) Coverage in the Annual Governance Statement.

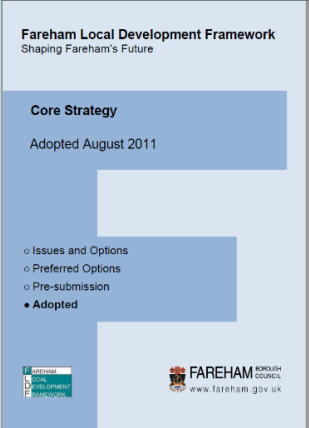
Risk or Opportunity	Actions taken
<p>Freedom of Information Requests (FOIs)</p> <p>There is a risk that FOIs we have dealt with could be challenged and passed to the Information Commissioner's Office (ICO). If they were to find against us they could instruct us to release information and they could impose an audit on us. Ultimately, they could fine us hefty sums for data breach.</p> <p>The number of FOIs the council receives has been steadily increasing and in 2017/18 we needed to provide 741 responses. There are also other subject access requests and proof of life requests that we are required to respond to.</p> <p>Previously all these requests were co-ordinated by posts within the Democratic Services team who had other day to day responsibilities.</p>	<p>Democratic Services – We have now employed a full-time person to focus on data protection and freedom of information requests. This will be a dedicated resource for information management.</p> <p>Democratic Services – The new resource will free up current staff to undertake a vanguard review looking at the whole process of how we handle FOI requests, both in terms of the accuracy of the response and in looking for ways to reduce the burden for the team and all the other officers of the Council involved in providing responses.</p> <p>Corporate – As part of the review we will be looking at repeat requests for the same information and what can be addressed through forward publication of information.</p> 
<p>Process for Suspect Packages</p> <p>A procedure was drafted in May 2017 which considered how employees, tenants and visitors can be kept safe if a suspect package was discovered.</p> 	<p>FBC – An officer group was set up to produce an evacuation procedure. This included the Corporate Policy Officer, Emergency Planning, Environmental Health and Property</p> <p>IT - Several potential options were discovered including the fact IT can access our phone system as an intercom to advise us to evacuate.</p> <p>As yet this procedure has not been introduced.</p>
<p>Retirement of Key Employees</p> <p>There are two employees in key posts nearing retirement age who may wish to leave in the next 18 months.</p> 	<p>Corporate – In conjunction with Human Resources, appropriate succession planning is underway with actions including:</p> <ul style="list-style-type: none"> • one key officer operating alongside another staff member to pass over knowledge; • procedures being documented; • an early recruitment process initiated to engage a replacement before the other current employee retires. This allows the current post holder to assist with the selection process and have a decent handover period; • in addition, a member of the support team has taken up a temporary role in the relevant team and that post has been back filled.


Risk or Opportunity	Actions taken
<p data-bbox="180 286 753 353">General Data Protection Regulation 2018 (Update)</p> <p data-bbox="150 371 783 439">The General Data Protection Regulations came into force in May 2018.</p> <p data-bbox="150 456 783 589">Non-compliance brings risks of not delivering our customers' rights, reputational damage and ultimately fines and sanctions from the Information Commissioner's Office.</p> <p data-bbox="150 607 443 636">Democratic Services</p> <p data-bbox="150 654 783 752">There is an increased number of enquiries coming in which is having an impact on resources.</p> <p data-bbox="150 770 783 1003">One new process required under GDPR is for a Data Protection Impact Assessment (DPIA) to be used to evaluate risks to the rights and freedoms of data subjects that result from data processing. It is also used to help identify and minimise the data protection risks of a project. e.g. Ferneham Hall.</p> <p data-bbox="150 1021 430 1050">Coastal Partnership</p> <p data-bbox="150 1068 770 1373">The Coastal Partnership hold little personal data, so the risks are lower for the service. However, across the partnership a lot of data is held and there are numerous corporate policies across the 4 constituent authorities which need uniting to ensure a consistent approach for the partnership. There is also a need to make sure they are compliant with the different GDPR requirements of each authority.</p> 	<p data-bbox="810 271 1508 360">Democratic Services – The awareness programme of briefings and workshops around the new regulations has been completed.</p> <p data-bbox="810 394 1508 517">Democratic Services - A Monthly Information Management update is given to CXMT, which includes progress in developing the Information Asset register. A legal update is provided by the council's solicitor.</p> <p data-bbox="810 551 1508 607">Democratic Services - Notice of Key Decisions are presented 28 days before the Executive meeting.</p> <p data-bbox="810 629 1508 864">Democratic Services – DPIA template has been developed in conjunction with the Southampton City Council and is routinely completed for the new data systems (e.g. Single view of debt system), projects (e.g. Ferneham Hall) and new ways of working (e.g. external printing of annual council tax bills). The service completes the template, and this is scrutinised for data risks by the IT security officer, democratic services and the legal team.</p> <p data-bbox="810 887 1066 916">Coastal Partnership</p> <p data-bbox="810 934 1508 1169">Coastal Partnership – A new manager has been appointed with experience in data protection. The manager is taking a proactive role to getting a consistent end message to the people in the partnership and highlighting where there are differences required for each council. Protocols are then being developed and embedded around data control, version control and data security.</p> <p data-bbox="810 1191 1508 1247">This role is supported by an assigned person for each Council to lead on GDPR compliance.</p> <p data-bbox="810 1270 1508 1359">Coastal Partnership – The shared service agreement is being updated and reviewed by the 4 legal service teams to widen the sections on information security and GDPR.</p> <p data-bbox="810 1382 1508 1471">Coastal Partnership – Privacy notices on emails have been amended to clarify the contacts and website addresses for GDPR information relating to each council.</p> <p data-bbox="810 1494 1508 1550">Coastal Partnership – FBC information collection assessment completed and action plan developed.</p> <p data-bbox="810 1572 1508 1740">Coastal Partnership – Training plan in progress which includes GDPR topics in the fortnightly team talks. Regular bulletins to update the team are produced on topics such as Pa5sw0rd complexity, email signatures, tailgating, and data ninja techniques (data organisation for easy retrieval).</p> <p data-bbox="810 1762 1217 1792">Leisure and Corporate Services</p> <p data-bbox="810 1809 1508 1899">Corporate Policy – Assisting Ferneham Hall with the booking and mailing system. Once personal information has been used, it will be deleted.</p> <p data-bbox="810 1921 1508 2033">Corporate Services – E-Panel privacy statement introduced on sign up, stating how long and what will be used. An automatic weeding system will be set up to delete personal data on a rolling 5 years basis.</p> <p data-bbox="810 2056 1508 2078">Corporate Services - Citizen of Honour – a privacy</p>

Risk or Opportunity	Actions taken
	statement will be added to the Citizen of Honour form as only certain information can be retained.
<p>Active Asset Management (Opportunity)</p> <p>In order to maximise income from the Council's property portfolio, Property Services are expanding its approach to active asset management; particularly given that some long-term leases will be due for renewal in a few years.</p>	<p>Property Services – Improving working relationships with existing tenants. Offering both existing and new tenants incentives to sign up to a longer-term lease.</p> <p>Financial Services – Ensuring the financial viability of tying tenants into long term leases by running financial checks prior to the lease and at quarterly annual intervals.</p>
<p>Death of a Senior Royal (Update)</p> <p>The Council must follow a set protocol if we receive notification of the death of a senior royal.</p> <p>There is a risk that we may react when not notified via the official means i.e. social media / fake news story. The official process for the notification is from the Lord-lieutenant's office to the Chief Executive Officer. If in any doubt the source of notification would need to be verified before taking any action.</p> <p>Further actions have been taken since the last report.</p>	<p>Democratic Services – Hampshire wide protocol is now in place.</p> <p>FBC documentation and process to meet the protocol is also now complete and has been circulated to CXMT and relevant Heads of Service.</p>
<p>Clarification of Property Responsibilities for Housing Stock</p> <p>Following the movement of staff and changing of roles it was recognised that we need to be made sure all jobs needed in the Housing stock were being picked up and nothing was being duplicated.</p> <p>A number of these jobs relate to health and safety risks e.g. gas maintenance contract, maintenance of fire alarms.</p>	<p>Property Services & Fareham Housing –Several meetings held compiling a list of jobs Property Services currently did, what would stay with them and what would sit better in the Housing Team. There was then a gradual handover of these tasks.</p>


Appendix B – Examples of actions taken REACTING to risks or incidents

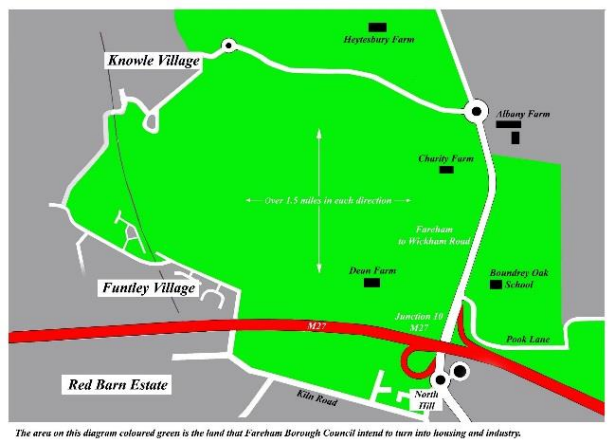

Risk or Opportunity	Actions taken
<p style="text-align: center;">Gas and Water Leaks in Council Owned Buildings</p> <p>There was a gas leak in the Civic Offices in March 2018. This was found during the routine daily inspections carried out by the facilities team. The leak was found to be from a pipe outside of the building which brings gas into the</p>  <p>building.</p> <p>There was a water leak in the Civic Offices in September 2018. This was discovered by the Facilities Team when the building was opened for the day. The leak had come from a Floor 7 toilet pipe and had started during the night and had flooded down the lift shaft. Carpets were damp, there was standing water in the basement, and various floors had ceiling and fire alarm damage. Two floors had to be fully</p>  <p>closed.</p>	<p>Civic Gas Leak</p> <p>Property Services – Called the Gas Board. They instructed them that as the Civic Offices is a commercial building it would need to be evacuated.</p> <p>Corporate – The decision was made to do a quiet and discreet evacuation on a floor by floor basis. This meant employees could gather belongings and go home in case the building was closed for a long period.</p> <p>Ferneham Hall was set up as the evacuation centre whilst the time frame for the repair was ascertained.</p> <p>Property Services – The Facilities Team opened the windows and doors to ventilate the building and reduce the risk further. The heating was turned off.</p> <p>External – The Gas Board responded and arrived at the Civic Offices quickly; they isolated the gas supply and then made the decision to allow staff back into building. They then repaired the damaged pipe and confirmed it was safe to turn the supply back on. The building was out of operation for 2 hours.</p> <p>Civic Water Leak</p> <p>Property Services – The Duty Officer was phoned at 7am, and it was decided to not let anybody in the building but move them to Ferneham Hall.</p> <p>Building Maintenance - Council Maintenance officers completed a quick fix on the broken water pipe until we could get plumbers in.</p> <p>Property Services – Lift engineers were already due to be in the building for servicing work so were asked to check the water implications instead and so confirmed the lifts were safe to use. Electricians were called to check electric and fire alarm safety which was confirmed to be safe.</p> <p>Property Services – Spent weeks drying out paperwork in the basement, including signed leases and deeds. These are now placed in plastic boxes to preserve these documents from future leaks.</p> <p>There are ongoing issues including with the old fire alarm system; the team are looking at a long-term fix which may be a whole replacement of the system.</p> <p>Osborne Clinic Leak</p> <p>Property Services – The Facilities Team arranged for a cleaning contractor to suck up the water. They also helped clear water for the tenant using brooms and de-humidifiers.</p> <p>Building Maintenance - Council responsive repairs officers fixed the leak.</p>


Risk or Opportunity	Actions taken
<p>Osborne Clinic Leak</p> <p>During a night in December 2018, a pipe burst in the kitchen in the Osborn Road Clinic which led to the ground floor being flooded.</p>	
<p>The New Draft Local Plan 2036</p> <p>There is a requirement to update the Local Plan every 5 years. The last FBC Plan was updated in 2017 which set out the Planning Strategy for the Borough up to 2026.</p> <p>The Council has committed to a review of its Local Plan to reflect emerging housing and employment needs for 10 years more until 2036.</p> <p>Central Government has also since changed the goal posts as a result of notifying us of higher housing numbers to be delivered. (See risk below)</p> <p>There will therefore need to be a new Draft plan in place at the end of 2019.</p> <p>This process always involves the management of the inherent risk of not being accepted by the Planning Inspectorate or the public on a number of grounds such as:</p> <ul style="list-style-type: none"> • The approach was not technically correct. • Consultation was not adequate • We have not taken into consideration issues raised by the public. 	<p>Planning Strategy & Regeneration – Will again need to seek advice from a company consisting of ex-inspectors to provide advice at an early stage that the approach is technically sound.</p> <p>We are aware that the inspector who reviewed the original plan has moved to this company. He therefore knows the local issues and is able to have a more open discussion in this role than he could as an inspector.</p> <p>Corporate Services – Again the public will be consulted and we will share issues and options in the Spring 2019. The Consultation plan is being drawn up ready for execution. A new Scrutiny Panel is in place who will review the results of the consultation.</p> 
<p>Health and Safety Executive Contravention Letter (Update)</p> <p>The Council was selected for inspection by the Health and Safety Executive (HSE) in August 2017, who were looking at how well we were complying with the Control of Vibration at Work Regulations.</p> <p>Areas for improvement in relation to Hand Arm Vibration (HAV) were identified and as a result the HSE issued the Council with a notification of contravention. Failure to act on this could lead to the Council being prosecuted. The HSE also identified that there is the risk of whole body vibration for some roles.</p>	<p>Streetscene and Health and Safety Officer - Good progress has been made. Staff training, and health screening had been conducted, and relevant referrals made to Occupational Health. No current staff member currently found to have hand related issues.</p> <p>Streetscene and Health and Safety Officer - A programme of trigger testing has been introduced involving ad-hoc testing on sites. The machinery used is now subject to annual external inspections conducted by an external company.</p>
<p>Health and Safety risks arising from material left by Rough Sleepers</p> <p>The increase in rough sleepers in the borough has resulted in an increased volume of items of</p>	<p>Streetscene - A strict procedure is now in place to ensure that only items of no further use are disposed of.</p> <p>Staff will be onsite at these times. Police and enforcement will identify where items have been left. Any personal effects or items of value will be added to a notice, then</p>

Risk or Opportunity	Actions taken
<p>risk that need to be disposed of safely.</p> <p>Clean Borough Enforcement officers have historically disposed of belongings. However, the disposal of bedding and clothing can represent significant risk if contaminated with bodily fluids including blood.</p>	<p>subsequently taken to the Civic Offices for storage.</p> <p>Streetscene (with assistance from the Health and Safety Officer and Avalon) - An infectious waste procedure is now followed with these items. A contractor has been identified who will collect and dispose of items at risk of being classed as infectious.</p>
<p>Exclusive Rights of Burial (Update)</p> <p>The Council's Cemeteries service allows members of the public to purchase an Exclusive Right of Burial to plots of preference in FBC cemeteries. This right lasts for 30 years after which it can be renewed.</p> <p>There have been 3 incidents in recent years where Exclusive Rights of Burial plots have been used for other internments.</p>	<p>Streetscene – The burial service has undergone a Vanguard intervention, resulting in a different way of working.</p> <p>Streetscene - An audit is being conducted of all pre-purchased plots. An e-solution to the existing paper maps and current electronic graves system is under investigation.</p>
<p>Strengthening Income Collection Processes</p> <p>Recent Internal Audit reports of the Pest Control and Dog Control services have highlighted that control measures need to improve to recognise when income is due to the Council and to then collect and record it correctly.</p>	<p>Environmental Health – A mini vanguard intervention was instigated, which showed that although the customer was receiving a good service on the ground, changes could be made to operational processes to ensure that the right income and expenditure was being levied/incurred and accounted for. The fees in this area will increase from April to improve cost recovery.</p> 

Appendix C - Risks noted where further actions are still needed

Risk or Opportunity	Actions being taken
<p>Delays in Determining the Welborne Planning Application (Update)</p> <p>As highlighted in the September 2018 risk report, the determination of the Welborne Planning application remains a high risk for the Council as the timing of the determination will affect when the Section 106 (S106) agreement can be completed and when the works on site can start.</p> <p>In particular it affects when the work to Junction 10 of the M27 can commence. This concern has recently been reiterated by Hampshire County Council as scheme promoters, due to the potential impact on funding streams which need to be used by March 2021 and the timescales that they have been set for the Smart Motorway programme.</p> <p>Delays to starting the build on site also mean more planning applications for housing elsewhere in the borough will be received which will be difficult to defend.</p> <p>Actions previously highlighted to mitigate the risk have been successful in that in December 2018 the majority land owner and master developer for the Welborne Garden Village submitted an updated planning application which is currently undergoing the next stages of determination. However, no site viability report has yet been included in the submission to allow the determination to be fully completed.</p> <p>Further actions being taken to manage this risk are listed here.</p>	<p>Welborne Strategy – Work on the planning conditions and the S106 agreement continues to be twin tracked where possible to minimise the delay between the planning permission being granted and the S106 agreement being drawn up.</p> <p>Development Management – Strategic issues to be resolved and operational work that needs completing were identified and ‘Rag’ rating used so the top issues can clearly be seen. Most are likely to have been addressed in the updated application and the service is currently working through these.</p> <p>Development Management – Meetings now being held twice weekly with the master developer to work through the detail of what the clauses and triggers may now need to be included in the Section 106 agreement.</p> <p>Welborne Strategy – An engagement programme for members of the Planning Committee has been developed which will be delivered when the planning application determination is nearing decision.</p> <p>Democratic Services – The Committee team have been briefed and are ready to call a special meeting of the Planning Committee when the service is ready.</p> <p>Development Management – The service is regularly engaging with the statutory consultees and discussing any concerns they may have.</p> 
<p>Managing the Implications of the Welborne Planning Application (Update)</p> <p>As highlighted in the September 2018 risk report, the outcome of the planning application determination will have significant implications for the infrastructure and green space that is included in the Welborne Garden Village and how it is managed. The most significant risks associated with the process, which are interrelated, are:</p> <ul style="list-style-type: none"> • Delivery of the Infrastructure whilst maintaining Viability of the Scheme • Delivering Junction 10 of the M27 • Delivering Affordable Housing 	<p>Delivery of the Infrastructure whilst maintaining Viability of the Scheme</p> <p>Corporate – Negotiations are being held between Council representatives and Senior parties from the Land Owner and Master Developer to make sure the benefits from the development of the site are achieved. Experts in the field have been engaged to advise on these discussions, and legal services are advising on possible options available.</p> <p>Delivering Junction 10 of the M27</p> <p>Hampshire County Council have taken on the role of the scheme promoter for junction 10 and are chairing a bi-monthly steering group involving representatives from all interested parties including consultants engaged by HCC to deliver the smart motorway scheme, the</p>

Risk or Opportunity	Actions being taken
<ul style="list-style-type: none"> Stewardship and Maintenance Obligations Delivery of placemaking requirements Medium and Long-term impact on Service Provision of the new development <p>Further actions being taken to manage these risks are provided.</p>  	<p>Department for Transport (DfT) and Highways England. The group has been set up to confirm the design meets the needs of all parties.</p> <p>A portion of the DfT funding towards the junction has been released to help fund the revenue costs being incurred by HCC to develop the proposed solution.</p> <p>Welborne Strategy – The team are continuing to work with the Ministry of Housing, Communities & Local Government (MHCLG) to secure assistance from the Housing Infrastructure Fund (HIF) for the junction, and to understand the terms and conditions of this funding and the options available to FBC on how it can be used.</p> <p>Delivering Affordable Housing</p> <p>Welborne Strategy – Reports have been commissioned to provide up to date data on what the housing needs of the borough are, compared to what the original policy position was, to ensure that the right mix for the community is agreed.</p> <p>Stewardship and Maintenance Obligations</p> <p>Corporate – The developer submitted a draft stewardship proposal, based around a Residents Trust governed by a multi-party Management Board. The proposal has been debated by senior managers. A report will be presented to members on the possible Council roles, liabilities and risks of the proposals</p> <p>Welborne Strategy – A visit is being organised from representatives of an operational Garden Cities from elsewhere in the UK, to learn the lessons from the model they used.</p> <p>Legal Services – The legal team are providing advice on the proposals and will advise on how these have been drafted into the Articles of Association for the Trust when submitted by the developer.</p> <p>Delivery of placemaking requirements</p> <p>Welborne Strategy – The terms of the Council's Placemaking commission were changed to allow the design consultants to also work with the Master Developer in achieving a vision that would meet the needs of both parties. This helped build up the working relationship and resolve potential conflicts.</p> <p>Welborne Strategy – The Master Developer is submitting a suite of design codes for approval by the Local Planning Authority, starting with a Strategic Design Code for the whole development. This approach is endorsed by Homes England. The Development Management team have limited experience of using Design Codes to manage development and as a result the design consultants have been further engaged to train FBC staff and work with the Master Developer to produce the Strategic Design Codes to ensure that placemaking is embedded for the next 20 years.</p> <p>Medium and Long-term impact on Service Provision of the new development</p>

Risk or Opportunity	Actions being taken
	<p>Welborne Strategy / Finance – An initial assessment has been carried out of the potential impact on FBC services of the following:</p> <ul style="list-style-type: none"> • Increase in population • Increase in households • Increase in affordable housing • Increase in employment space • Increase in infrastructure • Increase in countryside and open space • Increase in the general public realm • Services not provided for in the plan <p>A series of discussions is now being held with service managers to expand this assessment.</p>
<p>Air Quality Directive (Update)</p> <p>In July 2017, the Department of the Environment, Food and Rural Affairs (DEFRA) issued a Compliance Directive on the Council (and 22 others) to reduce Nitrogen Dioxide levels on parts of the A27/A32.</p> <p>The new directive required the Council to undertake a number of activities to achieve compliance by 2021. A national failure to comply will lead to the Government being fined by the EU, who are then likely to pass the fines down to non-compliant Councils.</p> <p>The actions the Council was taking to ensure compliance with the directive were detailed in the March 2018 report. Further actions taken since that report are highlighted opposite.</p> 	<p>Environmental Health – Successful bids for funding of £750,000 were submitted which have been used to:</p> <ul style="list-style-type: none"> • Compile ANPR (Automatic Number Plate Recognition) traffic survey data • Carry out Air Quality modelling • Carry out Options Appraisal and consultation <p>Environmental Health – In September 2018 a “Let’s clear the Air Together” publicity campaign and Air Quality Consultation were launched asking for feedback on 11 draft proposed measures.</p> <p>Environmental Health – A fully considered action plan (Outline Business Case) was submitted to DEFRA by the required deadline of end of December 2018 which identified the four preferred measures to deliver compliance in the shortest time.</p> <p>Environmental Health – Officers have met the DEFRA account manager in the Joint Air Quality Unit to discuss the four measures that have been submitted and we are likely to now receive a directive to deliver these measures using funding provided.</p> <p>Environmental Health – Officers will manage the <i>Taxi Incentive Scheme measure</i>, aiming to incentivise the replacement of older diesel taxis with hybrid / electric vehicles by offering 5 years free taxi licensing and monetary contributions towards insurance and servicing. Early measures grant funding has been received for this measure and will be matched as expenditure is incurred.</p> <p>Corporate – The Air Quality Strategic Member led working group and Technical Officer group will continue to work towards the three measures that are deliverable by Hampshire County Council.</p> <p>These are:</p> <ol style="list-style-type: none"> 1) replacing bus stops in the area with real time information bus stop to encourage more bus use. 2) building upon and increasing / improving cycling infrastructure in the area; and 3) introducing intelligent traffic lights at the Quay Street entrance to the Market Quay junction.
<p>Portchester Recreation Ground Flooding Risks (Update)</p>	<p>Coastal Partnership – Continued liaison with a local developer who, as part of the business case for attracting Grant in Aid, will need to contribute</p>

Risk or Opportunity	Actions being taken
<p>The Portchester to Paulsgrove Coastal Flood and Erosion Risk Management Scheme is located on the north shoreline of Portsmouth Harbour, stretching for 1.7km from Portchester Sailing Club in the West, to Port Solent in the East.</p> <p>A number of the defences along the frontage are in poor condition or do not provide the required standard of protection. The North Solent Shoreline Management Plan sets a policy of 'Hold the Line' for this length of coastline, but funding is needed to achieve this.</p> <p>There are 361 residential and 108 commercial properties at risk from a 1: 200 year present day tidal flooding event. This rises to 662 residential and 141 commercial properties at risk by 2115 if defences are not put in place.</p> <p>Funding Risks</p> <p>Due to a bid in October 2017, technical approval has been secured from the Environment Agency for a £10m scheme. However, for funds to be released a Section 111 agreement needs to be signed by Portsmouth City Council, Fareham Borough Council and the Developer. The agreement allows for money to be released to Fareham to use in tranches.</p> <p>If the agreement is not in place to secure the contributions from the developer then the public funding will not be released. In the meantime, there is the risk that the developer may explore other development opportunities other than residential.</p> <p>Delays have now meant that work will not begin on site until Spring 2021 at best, due the need to protect overwintering birds.</p> <p>There is also the risk that the funding formula could change before work starts. Currently the flood defence grant rules do not take account of local businesses, heritage, economics, tourism and growth and do not follow the same housing expectations as other parts of Government.</p> <p>Without the private developer funding the scheme is unlikely to proceed within the current funding formula. The initial phase of work will reduce the risk for 15 years but future phases are anticipated where further business cases for more funding to upgrade or replace certain parts of the frontage will need to be prepared to secure additional public funds. The remaining frontages will reach the end of their serviceable lives in 15 years and 30 years, all in the face of climate change pressures and rising sea levels.</p>	<p>significantly to the cost of the scheme outside of its development area.</p> <p>Coastal Partnership - The agreement is still in negotiation with the developer and Portsmouth City Council. The partnership is helping to shape and steer this project.</p> <div data-bbox="895 551 1449 963" data-label="Image"> </div> <div data-bbox="874 1223 1490 1662" data-label="Image"> </div>

Risk or Opportunity	Actions being taken
<p style="text-align: center;">Works needed to the Civic Offices</p> <p>Given the age of the Civic Offices there are a number of works that need to be completed, including to the industrial plant on the roof, to ensure the building continues to be operational for FBC staff and tenants of the building.</p> <p>For example: There are 6 inverters on the Civic Offices roof; one was replaced in early 2018 but the other 5 are beyond their life expectancy. They all serve half a floor each and dictate where air is circulated. If one fails there will be no heating or cooling to half a floor and it will put additional pressure on the remaining inverters. However, to wholly replacing the plant on the roof would be expensive and intrusive and may not be the best solution for future designs of the offices.</p> <p>There is also work needed to improve customer confidentiality on the ground floor, as flagged up in the last risk report.</p> <p>Any failure of the lifts also needs to be avoided due to the impact it has on the operation of the building.</p> 	<p>Property Services – A list of required works has been created, which includes building refurbishment (internal and external) and Ground Floor proposals.</p> <p>Priorities in the list are flagged and regularly reviewed.</p> <p>Corporate – Sums have been allocated in the Capital Programme over the next 3 years for the Civic Offices Improvement Programme. Lighting project scheduled for 2019/20.</p> <p>Property Services – Replacing the inverters when they start to show signs of failure.</p> <p>Property Services – Implemented a temporary cooling solution for Summer 2018 which was fully utilised during the heat wave. This consisted of a temporary external air conditioner and cooler held next to the Civic Offices.</p> <p>Property Services – On-going maintenance and servicing programme implemented, and contingency planning considered throughout; e.g. when belts are replaced the old one is kept so can be used if one fails and a replacement has to be ordered.</p> <p>Corporate – A team is to be convened to gather information on the changing and conflicting needs of all users of the ground floor reception area.</p>
<p style="text-align: center;">Possible changes to the calculation of housing need (Update)</p> <p>The National Planning Policy Framework (NPPF) requires Local Planning Authorities to identify and update annually a supply of specific deliverable sites to provide five years supply of housing against their housing requirements. The NPPF also requires an additional buffer of 5% (or 20% in the case of persistent under-delivery) to ensure choice and competition in the market for land.</p> <p>In September 2017, the Government published a document called ‘Planning for the right homes in the right places: consultation proposals’. The document proposed an introduction of a standard method for calculating local housing need.</p> <p>The new standard method is based on household growth projections and house-price to earnings affordability data published by the Office for</p>	<p>Planning Strategy and Regeneration – Planning Committee were updated on the implications of the new calculations in December 2018, and the new need to be aware of this when making decisions on planning applications.</p> <p>Planning Strategy and Regeneration – FBC have identified sites to fulfil our need as derived by the standardised formula devised by Government. The difficulty is in policy and some authorities not being able to deliver their ‘need’. Fareham’s neighbouring authorities present a real risk in shortfall of as it is likely we will have to pick up the shortfall from Portsmouth and Gosport.</p> <p>Planning Strategy and Regeneration - The Head of this service is currently seconded to PUSH for an interim 3 months to coordinate the Hampshire Housing Deal and seek agreement on strategic issues and a comprehensive approach to employment and housing.</p> <p>Corporate – The Council has petitioned Central Government.</p>

Risk or Opportunity	Actions being taken
<p>National Statistics (ONS).</p> <p>In September, the Office for National Statistics published new household growth projections for each local authority in England. The new projections are 2016-based and update the previous 2014-based projections that were previously being used which reduces some of the impact of the new method. However, there remains a requirement in the revised NPPF to include at least a 5% buffer on top of the 5-year housing requirement, which is calculated through the Housing Delivery Test. Based on the Housing Delivery Test guidance that is available, there is considered to be a very strong likelihood that this Council will be required to apply a 20% buffer on its 5-year housing requirement.</p> <p>This will increase this Council's annual requirement from 503 to 575 dwellings per annum. This would equate to a housing land supply at Fareham of 4.3 years (a shortfall of 386 dwellings) up to 31st March 2023.</p> <p>The Government are consulting on adjustments to the new standard method used to calculate Local Housing Need, following publication of the new household growth projections on 20th September 2018. If implemented these adjustments will further increase the Council's housing requirements, above that arising from the Housing Delivery Test.</p>	<p>Corporate - Expectations of the affordable housing provision are needing to be managed.</p> 
<p>Resources and Waste and Recycling Strategy</p> <p>In December 2018, the Department for Environment, Food and Rural Affairs (DEFRA) launched a policy "Our Waste, Our Resources: A Strategy for England". This sets out how we could preserve material resources by minimising waste, promoting resource efficiency and moving towards a circular economy in England.</p> <p>The policy is currently out to consultation and the impact is not yet known. The biggest impact for the Council is likely to be the compulsory introduction of separate food waste collection. There are also some key messages on increasing plastic recycling.</p> <p>The Strategy indicates that funding will be made available to help with up front transition costs and ongoing operational costs.</p>	<p>Streetscene – A briefing paper is being produced on the content of the Strategy for members.</p> <p>Streetscene – The service is following the discussions and outcomes arising from the consultation. More detailed papers are awaited from DEFRA.</p> 
<p>On Street Parking</p> <p>Notice has been served by Hampshire County Council of the intention to terminate the on-street</p>	<p>Corporate – Senior officers have met to discuss how to deal with the issues going forward and agree a communication plan for employees and members.</p>

Risk or Opportunity	Actions being taken
<p>parking enforcement agreement in place between themselves and Fareham Borough Council, with effect from April 2020.</p> <p>This represents risks on several fronts with the Council losing control of local on-street parking arrangements. For example: a) there is the potential for visitors to Fareham seeing parking meters introduced in areas where we currently do not charge for parking and b) Residents Parking schemes may be significantly changed.</p> <p>Staffing requirements will also have to change, and this will need to be handled in compliance with employment legislation.</p>	<p>Corporate – Specific projects that were in the ‘Opportunities Plan’ will now be merged and become a high priority project for delivery by the Project Team, to look at opportunities to mitigate the impacts of this change. The scope of the review will be agreed and will include strategic consideration of what we wish to achieve from our parking and enforcement strategy in terms of encouraging behaviours and the significance of income generated. A report is being prepared for the March Executive, to seek a review of the parking service.</p> <p>Corporate Services – A communication plan will be devised to keep the public informed of the changes in the responsible Councils.</p> 
<p style="text-align: center;">Updating the Asset Management Plan (Update)</p> <p>The Asset Management Plan has not been refreshed since 2008/09, and there is a risk that as a landlord we are not clear about the condition of all our assets including car parks, building and surface areas.</p> <p>Although robust processes are in place to monitor and inspect the statutory health and safety risks associated with assets (e.g. fire safety, asbestos, legionella, gas safety), these are not as robust for other issues affecting the fabric of the assets.</p> <p>Public Conveniences</p> <p>The Council’s public conveniences may need some investment as there is only one facility considered to be “outstanding”. There is also the potential problem that Fareham does not offer “Changing places toilets” (enhanced accessible toilets with changing facilities) whilst other Local Authorities are introducing them. There is also the potential that the Government will abolish business rates for public toilets.</p>	<p>Property Services – Progress is being made in producing a new 10-year Asset Management Plan. In particular identification of work needed to Civic Offices (as above)</p> <p>Finance and Audit – Joint audit to verify that responsibilities for inspection of all the Council assets, including public areas, are clear, had been progressing.</p> <p>Public Conveniences</p> <p>Streetscene – Condition survey of public toilets still being planned.</p> <p>Streetscene - Ideas have been submitted to reduce/remove some facilities as a saving measure.</p> 
<p style="text-align: center;">Impact of Environmental Health Legislative Changes</p> <p>The Food Standards Agency (FSA) are working</p>	<p>Environmental Health – Keeping up to date with developments and considering the impacts on the service.</p>

Risk or Opportunity	Actions being taken
<p>on changing the food regulatory system in anticipation of the impact of the UK leaving the European Union. This may lead to a reduction in routine inspection work and changes in professional guidance which could have an impact on the achievability of the Inspection Programme.</p> <p>Houses of Multiple Occupation are now licensable, and new charges have been introduced which will be a new area of work for Officers.</p> <p>Changes are being introduced in the criteria for Dog boarding licensing which will lead to an increase in the number of licences to be issued.</p>	<p>Officers have been trained and a restructure in 2018 enabled an additional neighbour liaison officer to be employed to help with the overall workload whilst also delivering savings overall.</p> <p>A vacant post is being temporarily filled to enable this work to be undertaken and the ongoing impact to be assessed.</p> 
<p style="text-align: center;">Uncertainty around the Impact of Brexit</p> <p>As central government works to secure a deal with the European Union (EU), local government needs to undertake planning and preparations to maximise the opportunities arising from Brexit as well as to mitigate any adverse impacts that may arise from the agreed deal or a potential “No Deal” scenario.</p> <p>The Ministry of Housing, Communities and Local Government will be providing a small amount of funding to help with preparation costs.</p> <p>Particular impacts that need to be considered are:</p> <ul style="list-style-type: none"> • the effect of any delays occurring at border areas (including sea ports) on the local road infrastructure; • the potential effect on EU nationals in the workforce of the Council, its partners and significant supply chains; • any potential problems with goods and materials flow in supply chains (and commissioned services); • ICT and data hosting arrangements the Council has in the EU; • impact of any changes in the economy to the viability of local businesses. 	<p>Corporate – The Council is actively participating in the Local Resilience Forum to produce a co-ordinated plan to respond to any short-term impacts from an exit from the EU.</p> <p>Corporate – A Senior Manager has been appointed to lead on the Council’s response. The manager will lead on assessing the potential longer-term risks and opportunities for the Council and any actions that are needed, as the changes progress.</p> <p>Corporate – Senior Manager and member engagement with the Local Government Association and Ministry of Housing, Communities and Local Government.</p> 

Appendix D – Detailed List of Risks, Opportunities and Actions Covered in the Manager Discussions

Those in **bold** are detailed further in the appendices above

Service Manager (s)	Subjects discussed
Planning Strategy and Regeneration	<p><u>Featured</u></p> <p>The New Draft Local Plan 2036</p> <p>Possible changes to the calculation of housing need (Update)</p> <p><u>Others Discussed</u></p> <p>Other local councils making requests for help in meeting housing targets under the duty to co-operate – unknown how the Planning Inspector will view a response to these requests.</p> <p>Delivery of Portchester Vision if not seen as a HCC priority</p> <p>Portchester - Commercial study to look at investing in this area if it could be opened as a development site.</p> <p>Further housing needs impact on the parking strategy</p> <p>The Masterplan for the Civic Quarter is now a corporate objective covering a refurbished Ferneham Hall, coordinating the parking provision going forward. Survey work is ongoing to help mitigate risks such as satisfying the parking need and remodelling the Cultural Quarter with no surprises of what we might find beneath the ground.</p> <p>Stubbington Bypass implications for the Strategic Gap</p> <p>Daedalus Plan - working corporately to test outcomes if the market changes.</p> <p>M27 J11 - Issues with the site promoter before Welborne was factored in. A logistics study could be needed to identify where along the whole of the M27 corridor, warehouses and Trading Estates could logically fit.</p> <p>Difficulty in recruiting experienced planners especially at peak times such as changes to legislation or a recession – use of golden handshakes</p>
Environmental Health & Parking	<p><u>Featured</u></p> <p>Daedalus 75 - Safety Advisory Group role in Special Events</p> <p>Loss of Key Employee</p> <p>Strengthening Income Collection Processes – for Dog control and pest control income – internal audit findings</p> <p>Compliance with Air Quality Directive (Update)</p> <p>Changes to on-street parking enforcement arrangements</p> <p>Impact of legislative changes proposed for:</p> <ul style="list-style-type: none"> • Food Safety work • Houses in Multiple Occupation • Animal licensing <p><u>Others Discussed</u></p> <p>Risks associated with the change of the partner management structure on the Environmental Health Partnership</p> <p>New arrangements with Portsmouth to administer FBC Disabled Facilities Grants (DFG)</p> <p>New arrangements with Parity Trust for Home Improvement Loans</p> <p>Non-completion of Food inspections</p>

Service Manager (s)	Subjects discussed
Street Scene	<p><u>Featured</u></p> <p>Succession planning for retirement of key officer.</p> <p>Health and Safety Executive Contravention Letter (Update)</p> <p>Health and Safety risks arising from material left by Rough Sleepers</p> <p>Further actions taken to mitigate problems with Exclusive Rights of Burial (Update)</p> <p>Resources and Waste and Recycling Strategy</p> <p>Public Toilets Asset Management Plan</p> <p><u>Others Discussed</u></p> <p>Grass cuttings at Junctions – increased expectation that this is done at night by the Highways authority.</p> <p>Health screening for noise, dermatological and respiratory problems in Grounds Maintenance staff.</p> <p>Improving administration of Sports pitch bookings</p> <p>Improving Hedge Cutting Capacity and Service</p> <p>Risks of vulnerabilities in refuse collection across the borough as expansion cannot always be absorbed by current rounds - this is a high-profile service.</p> <p>Zero based budget Refuse and Recycling round rebalancing exercise</p> <p>Opportunity of charging developers for both refuse and recycling bins for new properties – developers are now charged for this service.</p> <p>Managing the risk of increased disposal costs for Trade Waste.</p> <p>Changes in recycling markets and government targets – a new textiles contract now in force, the outcome is better than anticipated for year one, the rates can be adjusted for the remaining three years of the contract.</p> <p>Reduction in HCC funding for grass cutting – funding received is sufficient for 5 annual cuts only. Fareham conduct around 13, the cost accepted and approved by Members.</p> <p>Travellers incursions on parks and open spaces – measures are in place in locations of high risk, however travellers will return and find a way to compromise these measures.</p> <p>Health and Safety risks in play areas – gate reports seem to have concluded. The only remaining risk is the number of play areas that are adopted.</p> <p>Financing of the Vehicle replacement programme and compliance with the new procurement rules</p> <p>Problems with the fuel system – new system has been introduced that returns figures each month, which can then be easily reconciled.</p> <p>Titchfield Country Park – an additional 15 hectares to manage, no increase in the number of Countryside Rangers.</p>
Leisure and Corporate Services	<p><u>Featured</u></p> <p>Daedalus 75 event</p> <p>Ferneham Hall Redevelopment</p> <p>GDPR Processes including E Panel privacy</p> <p>Management of Health and safety at Community Centres</p> <p>Process for Suspect Packages</p> <p>Customer Confidentiality on the Ground Floor (Update)</p> <p><u>Others Discussed</u></p> <p>Managing in accurate or inappropriate Comments to the media where FBC has no control e.g. Anti Welborne</p> <p>Election venue – responsibility with the Chief Executive Officer</p>

Service Manager (s)	Subjects discussed
	<p>Community Grant funding – only one handed back because it had not been used within 6 months. All now audited, rather than a %.</p> <p>Project to reduce the quantity of post</p> <p>Fareham Leisure car park – need to revisit the kerbs layout and number of parking spaces.</p> <p>Problems with kit in Play areas.</p> <p>New policy for staff benefits at Ferneham hall</p> <p>Cash security at CSC</p> <p>Abuse of CSC staff and lone working arrangements – use of solo protect</p> <p>Health and Safety of staff at public consultation events. Includes risk assessment prior to trying out a new venue. Mitigate on day also – where necessary. Do not host at sports club.</p> <p>Managing the risk of flawed equality advice provision – keep up to date with latest legislation and guidance. Sign up to all forums, get legal to review Equality Impact Assessment.</p>
Democratic Services	<p><u>Featured</u></p> <p>Preventing New Procurement Rules allowing Maverick Spend - Implementation of new procurement process – mitigating risks of maverick spend or increased supplier costs.</p> <p>Preparation for the death of a Senior Royal – ensuring notification by official means</p> <p>Freedom of Information requests – guarding against challenges and ultimately fines.</p> <p>General Data Protection Regulation 2018 including use of DPIA</p> <p>Venue for Election Count</p> <p><u>Others Discussed</u></p> <p>Risks of having an inaccurate electoral register – the improvements made greatly increase the accuracy of the register</p> <p>Risk of an Election or Referendum including risk of threats during the count or at polling stations and having to relocate a polling station. Risk register in place.</p> <p>Contracts not being managed properly – documents not all filed in the contracts store, procurement to take on contract management from Estates team</p> <p>Brexit – potential election or referendum at short notice</p> <p>Scrutiny panels replacing PDR panels – risk that these don't have the desired improvement.</p>
Coastal Partnership	<p><u>Featured</u></p> <p>Coastal Partnership Health and Safety</p> <p>Reducing the Impact of IT Migration on the Coastal Partnership including on-going business continuity arrangements.</p> <p>Marketing and selling services to be resilient as a partnership.</p> <p>GDPR compliance across the 4 constituent councils</p> <p>Portchester Recreation Ground Flooding Risks (Update)</p> <p><u>Others Discussed</u></p> <p>Risks posed from landfill sites in a harbour area – raising the profile nationally including the Local Government Association Perils Interest Group</p> <p>Hill Head – Now complete</p> <p>Recruitment and Sustainability - New Assurance team.</p>
Property	<p><u>Featured</u></p>

Service Manager (s)	Subjects discussed
Services	<p>Active Asset Management (Opportunity)</p> <p>Clarification of Property team responsibilities in Housing properties</p> <p>Gas Leak – Civic offices</p> <p>Water Leak – Civic offices</p> <p>Water Leak – Osborne Clinic</p> <p>Works needed to the Civic Offices including anticipating equipment failure e.g. cooling system</p> <p>Customer confidentiality – ground floor</p> <p>Updating the Asset Management Plan</p> <p><u>Others Discussed</u></p> <p>Contaminated land management at Daedalus</p> <p>Maintaining Fire Risk Assessments in high risk buildings and in leased buildings</p> <p>Maintaining the physical fabric of the investment to make it continue to be attractive to incoming tenants when the market is difficult</p> <p>Debt Recovery for non-payment of rents by tenants</p> <p>Management of property deeds</p>
Welborne Strategic Lead	<p><u>Featured</u></p> <p>Determining the Welborne Planning Application</p> <p>Managing the Implications of the Welborne Planning Application including:</p> <ul style="list-style-type: none"> • Delivery of the Infrastructure whilst maintaining Viability of the Scheme • Delivering Junction 10 of the M27 • Delivering Affordable Housing • Stewardship and Maintenance Obligations • Delivery of placemaking requirements • Medium and Long-term impact on Service Provision of the new development <p><u>Others Discussed</u></p> <p>Twin tracking the signing of the planning permission conditions and S106 agreement with the 'resolution to grant' planning permission by the Planning Committee – new territory as not approached in this way before.</p> <p>Managing the approach to determining a planning application of this size.</p> <p>Hampshire County Council Highways Team resources could be prioritised elsewhere in the County and not assigned to the Welborne application work.</p> <p>Council achieves appropriate consideration for the cottages purchased in advance of the development.</p> <p>Specific elements of the planning determination: Schools, utility provision, health and well-being provision, rail halt, provision of passivhaus and custom and self-build housing.</p>

FAREHAM

BOROUGH COUNCIL

RISK MANAGEMENT POLICY



Introduction

Risk is a fact of life. The day to day management of an organisation and delivery of services involve foreseeing and averting problems and maximising opportunities. Risk management is not about risk avoidance but risk awareness.

Fareham Borough Council recognises that risk management is an intrinsic part of Corporate Governance. It seeks to ensure that every member and employee of the Council has regard for the management of risks throughout the organisation to ensure that the Council's resources that our customers rely on are not squandered as a result of uncontrolled risk.

However, our aim is to put dealing with risks and opportunities at the forefront of our process, rather than tie up resources in the management of a rigid supporting framework. Instead we will *implement robust and integrated risk management arrangements*, as required by our Local Code of Corporate Governance, by adopting and adhering to a number of key principles.

This document therefore sets out our approach to risk management, as determined by the Chief Executive's Management Team, and endorsed by the Audit and Governance Committee.

Overriding Principle

The overriding principle of this policy is:

Risk Management is an integral part of basic everyday management and decision making and is not a separate corporate process.

The Purpose of Risk Management

The Council has defined the purpose of its risk management arrangements as:

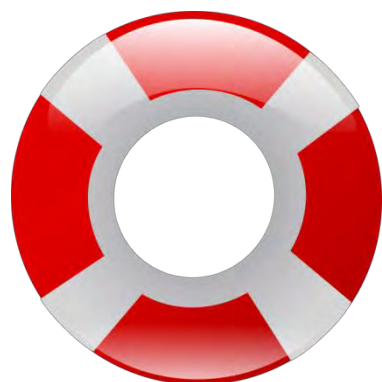
We want to know what risks we are facing
We want to know when opportunities arise

We want to be aware of what actions we are relying on
We want to know if there are additional actions we need to take



So that we can....

Prevent bad things from happening
Not miss out on good things



So that we can....

Avoid injury to people
Minimise avoidable cost
Maximise resources available
Deliver the purposes of the services we provide
Inspire confidence in our stewardship in our customers and tax payers



The 7 Principles of Risk Management at Fareham Borough Council

The basic principles in which risk management operates at the Council are summarised below:

1. Risk Ownership in Services



- Risks are owned at the service level.
- Identifying and managing the risks of a service is an integral part of managing the service. This includes horizon scanning to identify new and changing risks and opportunities.
- Every service, system and project has an owner with responsibility for it.
- The owner for most risks is usually clear from the roles and responsibilities in the service.
- Managers make sure that employees are well briefed and actively involved in identifying and understanding risks and determining the actions they need to take to contribute to the management of risks.
- This means everyone should work to understand and remove the things that impede achievement of their purpose.

2. Competent and Responsible Employees



- We employ competent and responsible managers and employees.
- This is underpinned by strong recruitment and performance management processes and, where necessary, corrective action.
- We trust managers to manage well which includes the identification and management of risk and opportunity in their service area.
- We trust employees to carry out the actions required of them to mitigate risks.
- It is incumbent on all to be:
 - a) proactive in giving confidence to others that key risks are being managed effectively, by using appropriate reporting and assurance methods.
 - b) proactive in obtaining assurances from others involved in carrying out actions which help manage risks for which they are responsible.

3. Experts Pulled in to Advise



- Service managers who need help to manage specific risks pull in experts when required.
- This could also involve having a conversation with a senior manager or fellow manager who has been in a similar situation.
- Certain risks are cross cutting and also need ownership at a corporate level to lead on translating, learning and providing support and solutions to service managers.
- A list of experts for those risk areas where ownership is not clear from the organisational structure is maintained as Appendix 1 to this policy.

4. Process is supported by Having Conversations



- Further risks may be identified by others (e.g. team members, other managers, legal services, internal audit) which are brought to the service manager's attention by having conversations.
- Further risks may also be identified by having conversations with parties outside of the Council.
- Where ownership for a risk is not clear interested parties meet to agree a way forward.



5. Identifying Opportunities to Share

- The organisation shares information about risks being managed at the service level and identifies common issues that may turn them into cross cutting or corporate risks.
- It is the responsibility of managers to appreciate the roles and responsibilities of other services and when risks and solutions they have identified in their service might be relevant to them, and to bring it to their attention.
- We provide an environment that encourages all employees to feel part of one organisation and to be aware of the full range of services provided by the Council and to notice and pass on information that may be of value to another service. (*The eyes and ears of the borough*)
- Experts and support services are in an ideal position to appreciate when problems and solutions being identified for one service could be relevant to another. (*The eyes and ears of the organisation*)

6. Escalation of Issues



- Employees are trusted to identify when issues need to be escalated in order to alert supervisors, managers and senior managers, or so that resources can be diverted to help with the management of the risk.
- The culture of the organisation makes employees comfortable in escalating problems.
- Our aim is to avoid feeding too much detail upwards to allow managers to see the important issues clearly and react quickly.

7. Incident Management and Review



- Incidents are risks that have occurred and are a measure of how well we are achieving our purposes.
- Most Incidents are directly managed by the service or escalated if corporate awareness or support is needed.
- Some incidents may require the lead to be taken by another service, e.g. insurance claims.
- After the incident a review is undertaken to identify any actions that may be needed to prevent recurrence.
- Questions to be asked should include:
How did it happen, was it predictable, could it happen again, what could we do to prevent it?
- Conversations with Senior Managers take place, as appropriate, to understand incidents and facilitate learning and to provide feedback on actions taken to prevent recurrence.

Other Components of our Risk Management Arrangements

Other components of our governance framework which also assist in the management of risk are:



In particular Horizon Scanning by CXMT and internal audit will assist in identifying responsibility for new areas of risk

Monitoring and Reporting

Level 1 – Managers: Discussions are held with a selection of managers every 6 months to gain assurance that the principles are working in their areas. The conversation includes:

- a) Their perceptions of their current top risks
- b) Any new or changes in risk/opportunities they have identified

- c) Any mitigating actions they have taken recently to strengthen risk management arrangements
- d) Any incidents that have occurred and the lessons learnt/ actions taken as a consequence.

Level 2 – CXMT: A summary of these discussions is presented to the Chief Executive's Management Team where further topics being managed at the corporate level are noted. The top risks at the corporate level are agreed.

Level 3 – A&G: The top risks and incidents in the period are then presented to the next Audit and Governance Committee. Where appropriate, the manager involved in managing a key risk/incident also attends the Committee.

Annual Assurance on Arrangements

The Chief Executive's Assurance Group carries out an annual review of the effectiveness of the framework for identifying and managing risks and for performance and demonstrating accountability.

This includes a review of the Head of Internal Audit annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

Maintaining the Policy

This policy is not expected to be a static document and will be updated as implementation of the arrangements identifies a need for clarification, revision or expansion.

Appendix 1

Risk Leads/Experts for Cross Cutting Risks

Risk Subject	Risk Lead
Data Protection	Head of Democratic Services
Information Security	Head of Personnel and IT
Emergency Planning and Business Continuity	Head of Parking and Enforcement
Fraud and Corruption	Head of Finance and Audit
Governance	Head of Finance and Audit
Procurement	Head of Democratic Services (process) Fareham's Solicitor to the Council (compliance with the law)
Health and Safety of Employees	Head of Environmental Health
Health and Safety of the public	Relevant Head of Service in conjunction with Head of Environmental Health
Partnerships	Head of Corporate Services
Safeguarding	Head of Environmental Health
Trees	Head of Development Management

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 11 March 2019

Report of: Director of Finance and Resources

Subject: TREASURY MANAGEMENT POLICY AND STRATEGY

SUMMARY

Regulations require the Council to prepare and formally approve an annual Treasury Management Strategy. The document for 2019/20, attached as Appendix A, was endorsed by the Executive on 4 February 2019 and submitted to Council for approval on 22 February 2019.

The main highlights in the Treasury Management Strategy are:

- i) The level of capital expenditure estimated for 2019/20 is £28.8 million. The current estimate is that £16.2 million of this will be met by new borrowing.
- ii) The strategy includes a new investment strategy which covers commercial property investments. The Council has £59 million of investment properties.

The Audit and Governance Committee's areas of responsibility for Treasury Management is to oversee the implementation of the Council's Treasury Management Strategy and Policy.

RECOMMENDATION

It is recommended that the Committee note the Treasury Management Strategy and Prudential Indicators for 2019/20, attached as Appendix A to this report.

Background Papers: None

Reference Papers:

Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services 2017

CIPFA The Prudential Code 2017

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)

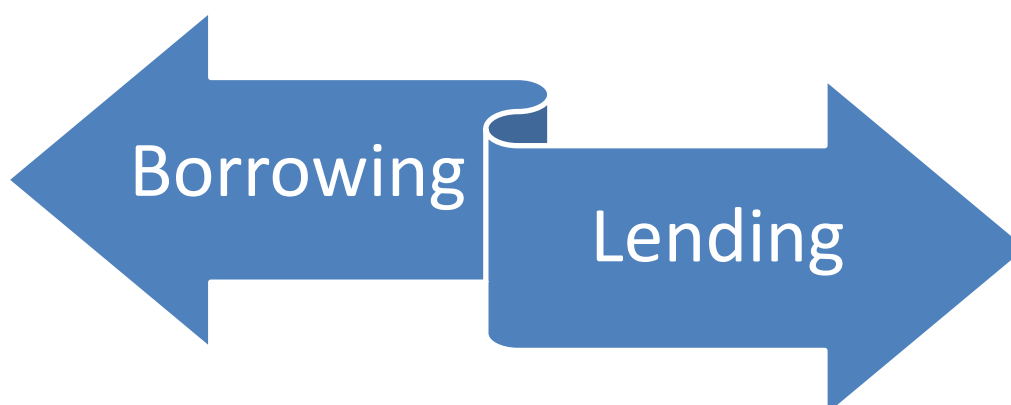
Arlingclose Treasury Management Strategy and Investment Strategy 2019-20 Template

Enquiries:

For further information on this report please contact Caroline Hancock (Ext 4589)

FAREHAM
BOROUGH COUNCIL

**TREASURY MANAGEMENT
STRATEGY
AND
INVESTMENT STRATEGY
2019/20**



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;

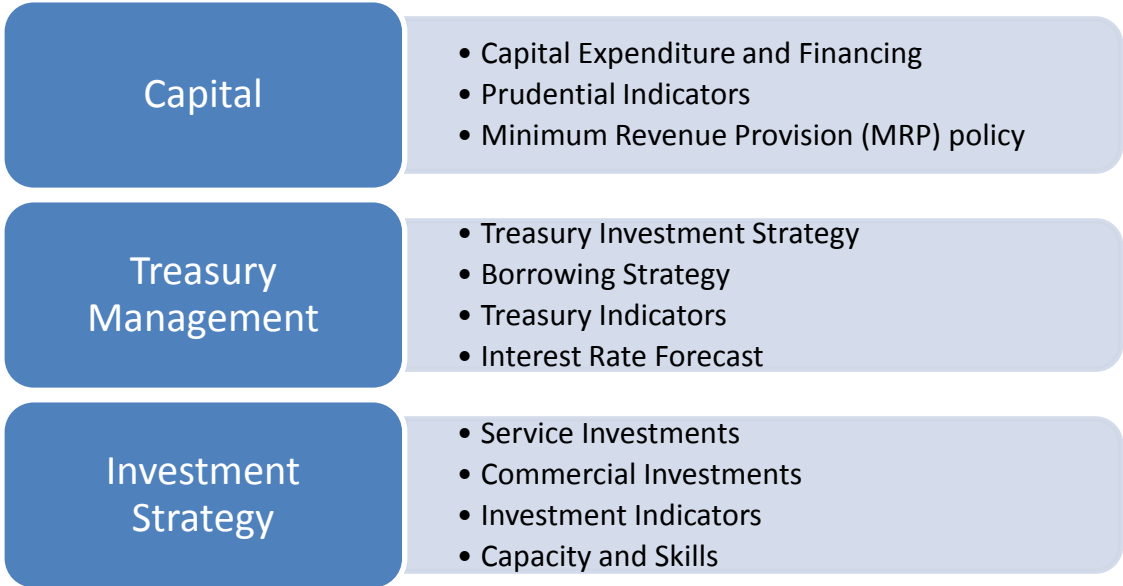
the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

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 capital, treasury management and investment activities for 2019/20. It covers three main areas:



4. The content of the Strategy
5. 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

6. 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:



7. 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.

CAPITAL

CAPITAL EXPENDITURE AND FINANCING

8. The objectives of the CIPFA Prudential Code are to ensure that capital investment plans are **affordable**, **prudent** and **sustainable**, and that treasury decisions are taken in accordance with good professional practice.
9. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the following **three prudential indicators**, which are designed to assist member's overview and confirm capital expenditure plans.

1) Level of Planned Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans and shows how these plans are being financed by capital or revenue resources.

Capital Expenditure and Financing	2018/19 Revised £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	Total £'000
Public Protection	100	0	0	0	0	100
Streetscene	107	574	0	0	158	839
Leisure and Community	348	378	100	100	600	1,526
Housing	1,098	500	500	500	529	3,127
Planning and Development	63	0	0	0	0	63
Policy and Resources	8,370	18,726	5,899	0	1,323	34,318
Total General Fund	10,086	20,178	6,499	600	2,610	39,973
HRA	4,441	8,575	5,552	4,079	3,429	26,076
Total Expenditure	14,527	28,753	12,051	4,679	6,039	66,049
Capital Receipts	1,294	322	3,106	232	29	4,983
Capital Contributions	1,771	3,823	600	600	758	7,552
Capital Reserves	3,134	6,356	5,556	2,644	3,243	20,933
Revenue	2,626	2,047	2,789	1,203	2,009	10,674
Borrowing	5,702	16,205	0	0	0	21,907
Total Financing	14,527	28,753	12,051	4,679	6,039	66,049

2) The Council's Borrowing Need (Capital Financing Requirement)

This prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure financed by borrowing will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing in line

with the asset's life.

The CFR projections are as follows:

£'000	2018/19 Revised £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
General Fund	44,487	59,846	58,610	57,336
HRA	51,141	51,141	51,141	51,141
Total CFR	95,628	110,987	109,751	108,477

3) Financing Costs as % of Net Revenue Stream

This is an indicator of affordability and identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

The positive percentage for the Housing Revenue Account (HRA) reflects the net borrowing costs for the HRA settlement.

	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund	3%	6%	10%	10%
HRA	15%	14%	14%	13%
Total	10%	11%	12%	12%

HOUSING REVENUE ACCOUNT (HRA) RATIOS

10. 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.

	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
HRA Debt £'000	49,268	49,268	49,268	49,268
HRA Revenues £'000	12,238	12,321	12,760	13,079
Number of HRA Dwellings	2,401	2,417	2,407	2,397
Ratio of Debt to Revenues %	4.03:1	4.00:1	3.86:1	3.77:1
Debt per Dwelling £	£20,518	£20,382	£20,467	£20,552

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

11. Where the Council finances capital expenditure by debt, it must **put aside resources to repay that debt** in later years. The amount charged to the revenue budget for the repayment of debt is known as **Minimum Revenue Provision (MRP)**.

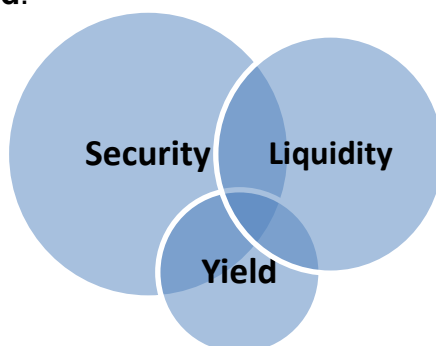
12. The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of General Fund borrowing. The main policy adopted is that MRP will be determined by charging the expenditure over the **expected useful life** of the relevant assets on an **annuity basis** starting in the year after the asset becomes operational. This calculation will be reviewed on a case by case basis depending on the circumstances and with a view to minimising the impact on the council tax payer.
13. Where expenditure is on an asset which will be held on a short-term basis (up to 5 years), no MRP will be charged. However, the capital receipt generated by the sale of the asset will be used to repay the debt instead.
14. No MRP will be charged in respect of assets held within the HRA, in accordance with MHCLG Guidance and capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.

TREASURY MANAGEMENT

INVESTMENTS

Treasury Investment Strategy

15. 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**.



16. 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.
17. If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to **negative interest rates** on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
18. Given the increasing risk and very low returns from short-term unsecured bank

investments, the Council where practical and reasonable, aims to further **diversify into more secure and/or higher yielding asset classes**. This is especially the case for the estimated £10m that is available for longer-term investment. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the strategy adopted in 2017/18.

19. 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 internally managed 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

20. The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Credit Rating	Banks Unsecured	Banks Secured	Government
UK Govt	n/a	n/a	£Unlimited 50 years
AAA	£2m 5 years	£4m 20 years	£4m 50 years
AA+	£2m 5 years	£4m 10 years	£4m 25 years
AA	£2m 4 years	£4m 5 years	£4m 15 years
AA-	£2m 3 years	£4m 4 years	£4m 10 years
A+	£2m 2 years	£4m 3 years	£2m 5 years
A	£2m 13 months	£4m 2 years	£2m 5 years
A-	£2m 6 months	£4m 13 months	£2m 5 years
BBB+	£1m 100 days	£2m 6 months	£1m 2 years
None	£1m 6 months	n/a	£4m 25 years
Pooled Funds	£4m per fund		

21. Investment limits are set by reference to the lowest published **long-term credit rating** from a selection of external rating agencies. 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 considered.
22. Summary of counterparty types:

- a) **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies. 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.
- b) **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
- c) **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 Central Government may be made in unlimited amounts for up to 50 years.
- d) **Pooled Funds:** Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds 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.

- 23. The Council may also invest its surplus funds in corporates (loans, bonds and commercial paper issued by companies other than banks), registered providers (loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing and 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

- 24. The Council may incur operational exposures, for example though 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 £4m 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

25. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. 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.
26. 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

27. 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.
28. The following **internal measures** are also in place:
- Investment decisions formally recorded and endorsed using a Counterparty Decision Document.
 - Monthly officer reviews of the investment portfolio and quarterly reviews with the Chief Executive Officer.

Investment Limits

29. The Council's revenue reserves available to cover investment losses are forecast to be £13 million on 31st March 2019. 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 £4 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as 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.

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£4m per group
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
Unsecured investments with Building Societies	£2m in total
Money Market Funds	£20m in total

Liquidity Management

30. 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.

Investment Treasury Management Indicator

31. **Principal sums invested for longer than a year.** 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 limits on the long-term principal sum invested to final maturities beyond the year end will be:

£M	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Limit on principal invested beyond year end	10	10	10	10

BORROWING

Current Portfolio Position

32. The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement), highlighting any under or over borrowing.

£'000	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt at 1 April	52,017	58,017	74,017	74,017

£'000	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Expected change in debt	6,000	16,000	0	0
Gross Debt at 31 March	58,017	74,017	74,017	74,017
Capital Financing Requirement (CFR)	95,628	110,987	109,751	108,477
Under/(Over) Borrowing	37,611	36,970	35,734	34,460
CFR for last, current and next 2 years	406,922	424,843	436,380	431,206

33. The Council is currently maintaining **an under-borrowed position**. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.
34. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years.
35. The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans and the proposals in the budget report.

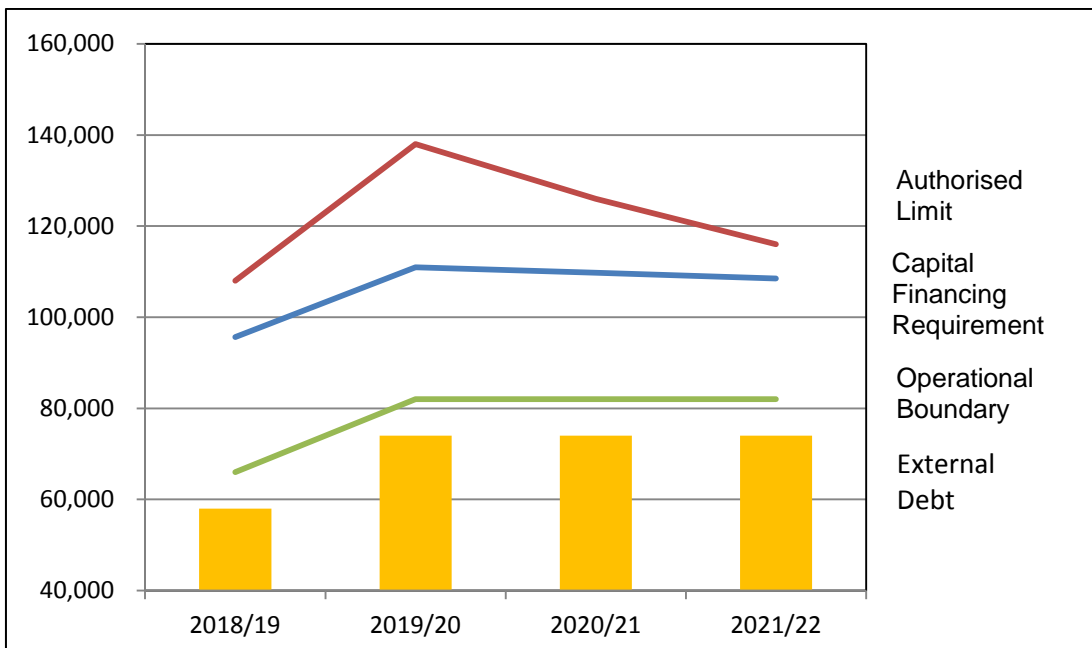
Treasury Indicators: Limits to Borrowing Activity

36. The treasury indicators include two limits to borrowing activity:
- 1) The **operational boundary** is based on the Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.
 - 2) The **authorised limit** is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.
37. The limits are:

£'000	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Operational Boundary				
Borrowing	62,000	78,000	78,000	78,000
Other long-term liabilities	4,000	4,000	4,000	4,000
Total	66,000	82,000	82,000	82,000
Authorised Limit				
Borrowing	102,000	132,000	120,000	110,000

Other long-term liabilities	6,000	6,000	6,000	6,000
Total	108,000	138,000	126,000	116,000

38. The graph below shows the projections for the CFR and borrowing limits:



Treasury Indicator: Maturity Structure of Borrowing

39. This treasury 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	25	0
- Loans maturing within 1 - 2 years	25	0
- Loans maturing within 2 - 5 years	25	0
- Loans maturing within 5 - 10 years	50	0
- Loans maturing in over 10 years	100	100

40. 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.

Borrowing Strategy

41. 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.

42. The Council has been in a debt free position for the General Fund for many years mainly due to having sufficient capital reserves to meet the Council's capital

programme. However, this position will change over the coming years as borrowing is required for large capital schemes at Daedalus and new property investment opportunities.

43. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short term to either **use internal resources**, or to **borrow short-term** loans instead.
44. 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.
45. 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 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
46. Alternatively, the Council may arrange forward starting loans during 2018/19, 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.
47. In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

Sources of Borrowing

48. The approved sources of long-term and short-term borrowing are:
 - Public Works Loan Board (PWLB) and any successor body.
 - 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 (see below) and other special purpose companies created to enable local authority bond issues.
49. 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

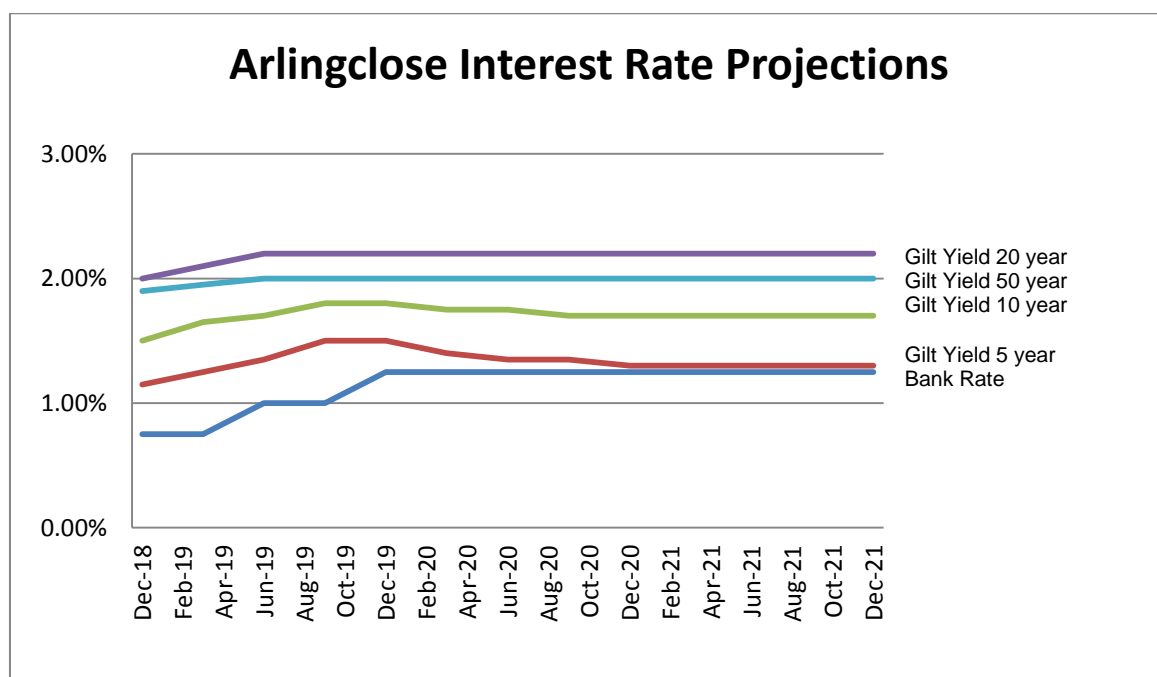
50. The Council has previously raised all of its long-term borrowing from the PWLB but it will investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.
51. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several 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.

Debt Rescheduling

52. 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.

PROSPECTS FOR INTEREST RATES

53. The Council's treasury management advisers 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 A.
54. The following graph and commentary gives the Arlingclose's central view on interest rates.



55. Following the increase in Bank Rate to 0.75% in August 2018, the Council's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.
56. The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.
57. Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

Other Items

58. The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.
59. **Policy on Use of Financial Derivatives:** The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
60. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
61. **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.

62. The unfunded HRA capital financing requirement is also charged to the HRA at the average weighted rate of the PWLB loans.
63. The General Fund credits the HRA with interest earned on HRA credit balances calculated on the monthly movement in reserve balances and applied at year end. The rate used is the weighted interest rate on General Fund investments and cash balances.
64. **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 Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

65. The budget for interest received in 2019/20 for the General Fund is £500,600 and the HRA is £126,300 and the budget for debt interest paid in 2019/20 is £35,000 for the General Fund and £1,794,900 for the HRA. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

66. 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	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset

long-term fixed rates		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
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

INVESTMENT STRATEGY

67. 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).
68. This investment strategy is a **new part of this document for 2019/20**, meeting the requirements of statutory guidance issued by the Government in January 2018, and focuses on the second and third of these categories.

Service Investments

69. The Council does not currently lend to or buy shares in other organisations.

Commercial Investments

70. 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.
71. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased 8 commercial investment properties, as summarised below, averaging a return of 6.98%.

Property Type	Purchase Cost £'000	Value at 31 March 2018 £'000
Retail	23,705	23,475
Commercial	1,721	1,980
Other	1,890	1,980
Total	27,316	27,435

72. The Council's total investment property portfolio is shown below and includes Fareham Shopping Centre, Faretec and industrial estates at Palmerston Business Park and Newgate Lane.

Property Type	Value at 31 March 2018 £'000
Retail	39,741
Commercial	9,775
Other	3,666
Office	4,652
Leisure	1,138
Total	58,972

73. In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.
74. 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. Should the 2018/19 year-end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.
75. 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;
 - 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 Councils investment as far as possible such as checks on planning conditions, land contamination issues and planning policy issues.

Proportionality

76. 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	2017/18 Actual	2018/19 Forecast	2019/20 Budget	2020/21 Budget	2021/22 Budget
Gross service expenditure	46,124	46,131	46,627	46,696	46,986
Investment income	3,807	4,246	4,555	4,555	4,555
Proportion	8.3%	9.2%	9.8%	9.8%	9.7%

Investment Indicators

77. The Council has set the following quantitative indicators to assess the Council's total risk exposure as a result of its investment decisions.
78. **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses.

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Forecast £'000
Treasury Management Investments	12,000	14,000	12,000
Commercial Investments	58,972	64,082	64,082
Total	70,972	78,082	76,082

79. **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.

Investments funded by borrowing	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Forecast £'000
Treasury Management Investments	0	0	0
Commercial Investments	18,840	18,412	17,972
Total	18,840	18,412	17,972

Capacity and Skills

TRAINING

80. 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.
81. Treasury management officers regularly attend training courses, seminars and conferences provided by the Council's treasury management advisers and CIPFA.
82. 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

83. The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues.
84. 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.
85. 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.

ARLINCLOSE ECONOMIC AND INTEREST RATE FORECAST DECEMBER 2018

Economic Background

The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

Credit Outlook

The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitional period following the UK's official exit from the EU.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.
- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening –

previous hikes and heightened expectations will, however, slow economic growth.

- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitional period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 11 March 2019

Report of: Head of Finance and Audit

Subject: INTERNAL AUDIT CHARTER AND STRATEGY

SUMMARY

The report presents a revised Internal Audit Charter for approval, which has been updated to reflect the latest Public Sector Internal Audit Standards which came into effect from April 2017. This sets out the purpose, authority and responsibilities of the internal audit activity.

This report also presents a revised Internal Audit Strategy for approval. This document sets out the proposed nature and the extent of work that the Internal Audit Service will deliver in order to support the Annual Head of Audit Opinion, and the requirements of the Charter.

The Audit and Governance Committee's areas of responsibility for Internal Audit are:-

- a) to approve the internal audit charter.
- b) to approve the internal audit plan, including internal audit's resource requirements, the use of external suppliers of audit services, and the approach to using other sources of assurance.
- c) to approve significant interim changes to internal audit plan and resource requirements.
- d) to make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- e) to consider reports from the head of internal audit on internal audit's performance, including conformance to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

RECOMMENDATION

It is recommended that the revised Internal Audit Charter and Internal Audit Strategy, as attached as Appendix A and Appendix B be approved.

INTRODUCTION

- a) The latest Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2017. They are recognised as the professional standards for Local Government Internal Audit Services and now incorporate the Institute of Internal Audit International Standards.
- b) Standard 1000 requires us to set out the purpose, authority and responsibilities of the internal audit activity in an **Internal Audit Charter**. This forms a support document to the Council's Financial Regulations.
- c) Standard 2010 requires us to link our annual audit plan to a strategic statement of how the internal audit service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities. This information is contained in the Council's **Internal Audit Strategy** which received a fundamental review in March 2015.
- d) The Strategy is now required to be refreshed every 3 years. This report therefore presents a refreshed version of the Charter and Strategy, particularly to meet the requirements in the latest Standards.

INTERNAL AUDIT CHARTER

- e) The proposed new Charter is attached as [Appendix A](#). The key changes that have been made are as follows:
 - (a) Updating the mandatory requirements, mission and definitions to match those in the Accounts and Audit Regulations for 2015, and the new standards. This includes:
 - Removal of the requirement to carry out an annual review of the effectiveness of internal audit;
 - Adoption of the Mission and Core Principles defined in the latest Standards.
 - (b) Redefining the Senior Management at the Council as the Chief Executive's Assurance Group.
 - (c) Recognising the new role of the Head of Finance and Audit as the lead support officer for the Audit and Governance Committee.
 - (d) Outlining the arrangements in place to maintain independence despite the dual roles of the Head of Finance and Audit. (section 8.1)
 - (e) Inclusion of the 5 areas of evaluation expected of internal auditors. (section 5.4)
 - (f) Recognising the role that the Internal Audit Team are now starting to take in helping with the implementation of recommendations. (section 9.5)
 - (g) Reference made to the matrix of audit assurances for Hampshire partnerships which seeks to highlight where the work of one council's audit team can be used by other teams in Hampshire. (section 10)

INTERNAL AUDIT STRATEGY

- f) The proposed revised Strategy is attached as [Appendix B](#). It seeks to deliver the

maximum assurance and value-added work within current budget constraints. The headline proposals contained in the Strategy are as follows:

- (a) **4 Groups of Assurance Work** – The Annual Head of Audit’s Opinion takes into account the findings from: 1) individual audit opinion work, 2) wider audit work and, 3) other assurances available from audit providers. The Strategy also now recognises the assurances that are provided from the Head of Finance and Audit’s involvement in activity that creates a general organisation awareness.
- (b) **Minimum Audit Level** – Following the updated benchmarking of the number of individual audit assignments there is no proposal to move away from the minimum of 20 discrete pieces of opinion or wider work being delivered a year. However, the minimum of audit days will increase from 173 days a year to 180 days a year, based on the increased level of expenditure by the Council.
- (c) **High Risk Audits** – The opinion on all fundamental financial systems will continue to be refreshed every 3 years. Audit areas that are considered to be inherently High Risk will be given an audit opinion at least every 5 years. There has been an increase in these from 13 to 25. The plan each year will also include computer audit work and corporate level audit work.
- (d) **Wider Audit Work** – Resources will continue to be allocated to *wider audit work* which seeks to get to the root cause of issues and help develop solutions. This work is often delivered in conjunction with other services.
- (e) **Resourcing** – Bought in resources will be used to mainly deliver the individual opinion work to maintain independence. However, the in-house team will support the delivery of this work. In-house resources will also be used to deliver the wider audit work.

RISK ASSESSMENT

- g) There are no significant risk considerations in relation to this report

CONCLUSION

- h) The revised Internal Audit Charter and Internal Audit Strategy should meet the requirements of both the Public Sector Internal Audit Standards and the managers of this Council.

Appendices:

Appendix A – Revised Internal Audit Charter 2019 (separate attachment)

Appendix B – Draft Internal Audit Strategy 2019 (separate attachment)

Background Papers: None

Reference Papers:

The Accounts and Audit (England) Regulations 2015 (SI 2015-234)

Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 – Public Sector Internal Audit Standards.

Enquiries:

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

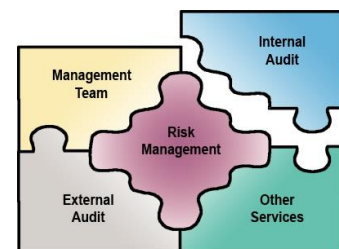
FAREHAM

BOROUGH COUNCIL

INTERNAL AUDIT CHARTER (v4 2019)

1. Introduction

This Charter sets out the purpose, authority and responsibility of the Internal Audit activity at Fareham Borough Council. It is the support document (14) to Financial Regulation 11 which stipulates the Council's main Internal and External Audit arrangements.



This Charter will be reviewed periodically by the Head of Finance and Audit and presented to the Audit and Governance Committee for final approval.

2. Mandatory Requirements

The requirement for an Internal Audit function in local government is contained within the Accounts and Audit (England) Regulations 2015, which states that:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

The latest Public Sector Internal Audit Standards (PSIAs) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) for use in local government with effect from 1 April 2017. They incorporate the Institute of Internal Audit International Standards which are now adopted by the Fareham Borough Council audit team. These comprise of the:

1. Mission of Internal Auditing
2. Definition of Internal Auditing
3. Core Principles for the Professional Practice of Internal Auditing
4. Code of Ethics
5. Standards (Attribute (4) and Performance (7))

3. Mission, Definition and Core Principles

The Mission of Internal Audit is defined in the Public Sector Internal Audit Standards as:

‘to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight’.

Internal Audit is defined in the Public Sector Internal Audit Standards as:

'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

The Core Principles for the professional practice of Internal Auditing, that are adopted to articulate internal audit effectiveness are as follows, in accordance with the Public Sector Internal Audit Standards:

✓	Demonstrate integrity
✓	Demonstrate competence and due professional care
✓	Objective and free from undue influence (independent)
✓	Align with the strategies, objectives, and risks of the organisation
✓	Appropriately positioned and adequately resourced
✓	Demonstrate quality and continuous improvement
✓	Communicate effectively
✓	Provide risk-based assurance
✓	Be insightful, proactive and future-focused
✓	Promote organisational improvement

4. Purpose of Internal Audit

Fareham Borough Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

Internal Audit plays a vital role in assisting officers and members in the effective discharge of their responsibilities, by advising the Council whether these arrangements are in place and operating effectively.

This is achieved through the Internal Audit service providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The Internal Audit Service is not responsible for:

- Managing the risks of the Council.
- Establishing and maintaining systems of internal control.
- Determining operational policies.
- Ensuring the prevention or detection of fraud and irregularity.

The Council's response to internal audit activity should lead to a strengthening of the control environment and, therefore contribute to the achievement of the organisation's objectives.

5. Roles and Responsibilities

The Council has defined the following individuals and bodies referred to in the Public Sector Internal Audit Standards as follows:

Terminology in PSIA's	Meaning in PSIA's	Who in FBC
The Board	The highest level governing body charged with the responsibility to direct and/or oversee the organisation's activities and hold senior management accountable for governance.	Audit and Governance Committee
Senior Management	Those responsible for the leadership and direction of the Council.	Chief Executive's Assurance Group
Chief Audit Executive	A person in a senior position responsible for effectively managing the Internal Audit activity in accordance with the Internal Audit Charter and the mandatory elements of the International Professional Practices Framework.	Head of Finance and Audit
Internal Audit Activity	The internal audit activity at FBC is provided jointly by an in-house team and an external partner, with the latter primarily responsible for the delivery of the audit plan of "opinion" assignments. The External Authorised Officer is the designated lead officer from the external partner.	

5.1 Responsibility of the Audit and Governance Committee with regards to Internal Audit

The Audit and Governance Committee is responsible for approving any revisions to the Internal Audit Charter and monitoring the effectiveness of the Internal Audit activity. It is also responsible for endorsing the Internal Audit Strategy and Annual Plan of work, and the independence of the Internal Audit Service.

During the financial year, progress reports of internal audits carried out, with their outcomes, are reported to the Committee. These highlight any audits given limited or no assurance. The Audit and Governance Committee assists with monitoring that adequate attention is given by management to address any significant deficiencies in internal controls found.

5.2 Responsibility of the Statutory Chief Finance Officer

In accordance with the CIPFA Statement on the Role of Chief Finance Officer, this post holder is required to ensure that an effective internal audit function is resourced and maintained. This will include reviewing the Internal Audit Strategy and Annual Plan of work.

5.3 Responsibilities of Auditors - Due Professional Care

Internal Auditors should perform work with due professional care, competence and diligence. Internal Auditors cannot be expected to identify every control weakness or irregularity, but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal Auditors should apprise themselves of the '*Mission and Definition of Internal Auditing*', the '*Code of Ethics*', the '*Core Principles*' and the '*Standards*' and work in accordance with them in the conduct of their duties.

Internal Auditors will have a continuing duty to develop and maintain their professional knowledge, skills, and other competencies based on continuous professional development.

Internal Auditors should be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money and failure to comply with management policy. They should ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Head of Finance and Audit.

Internal Auditors should treat the information they receive in carrying out their duties as confidential. There should be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained during Internal Audit work should not be used for personal gain.

5.4 Responsibilities of Auditors – Areas of Evaluation

Internal Auditors should evaluate risk exposures and the adequacy and effectiveness of controls, in the organisations governance, operation and information systems regarding:

- Achievement of the organisation's strategic objectives
- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations and programmes
- Safeguarding of assets
- Compliance with laws, regulations, policies, procedures and contracts.

6. Relationship with External Auditors

An effective collaboration between Internal Audit and the external auditors is required to help ensure effective and efficient audit coverage and resolution of issues of mutual concern.

The Head of Finance and Audit and External Audit Manager should meet periodically to: plan the respective internal and external audits; discuss potential issues arising from the external audit; and share significant issues arising from audit work.

7. The Status and Authority of Internal Audit

7.1 The Head of Finance and Audit

The Head of Finance and Audit reports directly to the Statutory Chief Finance Officer and the Audit and Governance Committee.

The Head of Finance and Audit also has direct access and the freedom to report to all Senior Management including the Chief Executive Officer, who chairs the Chief Executive's Assurance Group. The Head of Finance and Audit also has direct access to the Council's Monitoring Officer where matters arise relating to legality and standards.

Where it is considered necessary to the proper discharge of the Internal Audit function, the Head of Finance and Audit is granted direct access to the Chair and Vice-Chair of the Audit and Governance Committee.

The Head of Finance and Audit and External Authorised Manager have the freedom to suggest the subject priorities for the Internal Audit service, which will be submitted for agreement with the Statutory Chief Finance Officer and approval of the Audit and Governance Committee.

7.2 Authority and Right of Access to Records, Assets, Personnel and Premises

Internal Audit have a right of access to all premises, records, personal and property belonging to the Council or its key partners, where necessary for the proper performance of their duties.

Internal Audit also have the authority to obtain such information and explanations as it considers necessary in the fulfilment of its responsibilities.

Access rights apply to the partner auditors as permitted through the associated contract and partnering arrangements and in agreement with the Head of Finance and Audit. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

Further powers are afforded to the in-house Internal Audit and Corporate Fraud teams during an investigation, as laid out in Financial Procedure Rule 11.

8. Independence and Objectivity

8.1 The Head of Finance and Audit

As there is a potential conflict from the dual role of the Head of Finance and the Head of Audit the following compensating controls will be used to maintain independence:

The Head of Finance and Audit and the External Authorised Officer will be a member of a professional accountancy or auditing body.
The Head of Finance and Audit will assume the auditee role in audits of specific finance and local taxation systems.
The majority of planned "opinion" work will be carried out by the auditors of the external partner who are not employees of the council and who report to their own head of audit.
The original copy of all audit reports submitted by the external partners will be filed as part of the audit trail for that audit.
Although the teams will liaise on the scope of the audit and the content of the final audit report, the External Authorised Officer will be sent a copy of the final report allowing them to raise any concerns they have with the content with the Section 151 Officer.
The Section 151 Officer will meet annually with the External Authorised Officer without the Head of Finance and Audit being present.

8.2 Internal Auditors

Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal Auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that Internal Auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, the following arrangements will be put in place, in addition to the status given to the audit service outlined above:

The Internal Audit Service will not have any executive or operational responsibilities.

Auditors will not carry out an “opinion” audit of an activity for which they have previously had responsibility or an operational role until at least 12 months have elapsed. This also applies where they have undertaken consultancy work covering the activity.

All lead auditors will be required to sign up to an individual independence, ethics and confidentiality agreement and declare any conflicts they may have in potential audit assignments. These will be taken into consideration when audits are assigned. Additional arrangements may also be in place within the partner audit organisation.

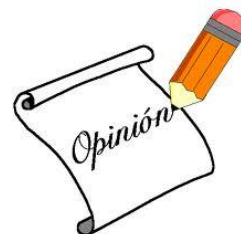
An individual auditor will not be solely responsible for the same audit assignment for more than 3 consecutive audits.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Statutory Chief Finance Officer and the Audit and Governance Committee. The nature of the disclosure will depend upon the impairment.

9. Scope of Internal Audit Activities

9.1 The Annual Audit Opinion

The Head of Finance and Audit is responsible for the delivery of an Annual Audit Opinion and report which can be used by the Council to inform its Annual Governance Statement.



The annual opinion will conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The opinion given will be based on reasonable and not absolute assurances and will include any limitations to scope affecting the opinion.

Internal Audit's remit extends to the entire control environment of the organisation. The approach is determined by the Head of Finance and Audit and will depend on the maturity of the risk and governance arrangements at the council, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of assurance required that controls are well designed and operating as intended.

9.2 Risk Based Audits

Audit work intended to provide an individual audit assurance “opinion” will be undertaken using the risk-based approach. This identifies the risks and controls associated with the achievement of defined business objectives and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of management’s objectives. At the end of the assignment an individual assurance opinion will be given from the scale in [Appendix 1](#).

9.3 Recommendation Management

Where significant weaknesses are found in risk-based audits, an action plan will be agreed with the managers of the service. The weaknesses will be given a priority from the scale in [Appendix 1](#). The Internal Audit service will maintain a record of these which will be used to inform future audits.

An important element of Audit work will be to provide assurance to management and members as to whether Audit recommendations have been successfully implemented. This will be by way of annual surveys involving service management self-assessing the level of implementation, supplemented by audit verification of implementation during assignments or specific follow up reviews.

9.4 Specific Assurances

Additional coverage may be added to the work of the service, on agreement with Senior Management, to give assurances on specific aspects of the governance framework, such as the level of policy compliance or strength of counter fraud controls.

9.5 Other Activities under the Wider Role of Internal Audit

Risk Management

The wider Audit and Assurance team play an active role in supporting the risk management process at the Council by maintaining the Risk Management Policy and leading on the corporate monitoring and reporting processes.

In order to maintain independence, assurance on the adequacy of the council's risk management arrangements cannot be undertaken by an auditor involved in this activity and cannot be directed by the Head of Finance and Audit.

Annual Governance Statement

The Head of Finance and Audit takes an active role in ensuring that the Annual Governance Statement is produced by the Chief Executive's Assurance Group and approved by the Audit and Governance Committee, in accordance with best practice and within the required timescales. The post-holder also leads on maintaining appropriate documentation of the Governance Assurance framework and keeping records of the work carried in conducting the annual review of arrangements.

In order to maintain independence, assurance on the adequacy of the council's Annual Governance Statement process cannot be directed by the Head of Finance and Audit.

Referred Control Issues and System Breakdowns

The Audit and Assurance team play an active role in identifying themes arising from audit assurance work, which would benefit from corporate action, such as those that are cross cutting in nature or which little progress is being made on addressing. These may also be referred by the Statutory Chief Finance Officer or the Chief Executive's Assurance Group.

Where a failure in a council system has been identified the internal audit, service may be instructed to establish the reason and impact of the failure and assist the service in developing an action plan to prevent future recurrence.

Assistance in Action Implementation

The Internal Audit Service may also assist a service in implementing actions to address control weaknesses that have been identified to ensure that a strengthened control framework is achieved. The service will be expected to maintain any controls that are designed and introduced and take ownership for them after implementation.

Consulting Services

The Internal Audit Service may also provide consultancy services such as advice on the design and implementation of a new system or process. Any significant consulting activity not already included in the Annual Plans and which might affect the level of assurance work undertaken will be reported to the Statutory Chief Finance Officer and the Audit and Governance Committee for approval. The Internal Audit service will manage objectivity when assigning resources to the engagement.

9.6 Role of Internal Audit in Fraud-Related Work

The Head of Finance and Audit is also responsible for the delivery of the Corporate Counter Fraud Strategy work and the delivery of corporate investigations. The Internal Audit activity assists the Counter Fraud activity in the following ways:

Promoting an anti-fraud, anti-bribery, anti-corruption culture which aids prevention and detection.
Ascertaining the effectiveness of fraud prevention controls and detection processes.
Bringing to the Head of Finance and Audit's attention any irregularities identified during audit work which may be the result of fraud or corruption.
Providing specialist skills and knowledge to assist irregularity investigations.
Providing assurance that remedial actions required following an investigation have been implemented

The Head of Finance and Audit also has a wider responsibility to collate the total number of suspected and actual fraud and irregularities in accordance with the Transparency Code.

S/he is also one of the nominated routes that can be used by individuals to report a suspicion of Financial Irregularity under Financial Regulation 10. This also stipulates that Head of Finance and Audit should subsequently be notified of all investigations into fraud, corruption or impropriety and the outcomes.

10. Assurance Services provided to External Parties

The Internal Audit service examines the internal control and risk management processes for the Portchester Crematorium Joint Committee in accordance with the local agreement.

Audits of services carried out in partnership with Gosport Borough Council are delivered jointly with or alternately by the Gosport Borough Council Audit Section to avoid duplication.

The Hampshire Audit Manager's Group will maintain a matrix of assurances for Hampshire partnerships which will highlight who is the lead audit team for partnerships and whose work can then be used by the audit teams in Hampshire. This may therefore require the Fareham Borough Council Audit Team to provide assurances to other Councils.

11. Reporting

11.1 Reports to the Top of the Organisation

The Head of Finance and Audit and/or the External Authorised Officer will provide the following reports to the top of the organisation:

	Audit and Governance Committee	Chief Executive's Assurance Group	Statutory Chief Finance Officer	Individual Senior Managers
Internal Audit Charter	YES		YES	
Internal Audit Strategy	YES		YES	
Internal Audit Annual Plan	YES		YES	Discussions on content
Quarterly Progress Reports & Findings	YES		YES	Full end of assignment reports
Annual Audit Report and Opinion	YES	YES		
Corporate themes arising from audit activity		YES	YES	
Conformance with Standards and results of the Quality Assurance and Improvement Programme	YES	Significant non-conformances	YES	

11.2 Individual Assignment Reports

A report will be issued for each planned assignment for the appropriate Senior Manager. A summary of this information will be included in the quarterly progress reports to the Audit and Governance Committee.

Internal Audit reports are subject to the Freedom of Information Act and as such can be requested by **external** parties. These must be released within the statutory timescale but only after liaison with the Head of Finance and Audit and Director of the service concerned. This is to ensure that any *exempt* information has been removed, where considered necessary.

Internal Audit reports and working files can be released to external auditors on the authorisation of the Head of Finance and Audit, External Authorised Officer or Statutory Chief Finance Officer.

Internal Audit reports can only be released **internally** to the Statutory Chief Finance Officer or the supervisor, Head of Service or Director of the service being audited. The release of the report to anyone else internally requires the authorisation of either the Statutory Chief Finance Officer, Head of Service or Director of the service concerned.

Audit working files and records can only be released internally on authorisation of the Head of Finance and Audit or External Authorised Officer.

12. Resourcing the Audit Activity

The Statutory Chief Finance Officer should provide the Head of Finance and Audit with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the Internal Audit opinion.

The Internal Audit Budget is reported to the Executive and Full Council for approval annually, as part of the overall Council budget. The Audit and Governance Committee approve the allocation of the available resources in the form of the proposed Audit Strategy and Annual Plan for the year.




The Head of Finance and Audit should ensure that the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the Audit Strategy and Audit Plan.

During the year, if the Head of Finance and Audit or the Audit and Governance Committee believe that the level or nature of available resources will sufficiently limit the scope or coverage of the internal audit activity they will advise the Statutory Chief Finance Officer accordingly.

Summary of Assurance Opinions Used

Assurance Level	Description
Strong	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.
Reasonable	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.
Limited	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.
Minimal	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.

Recommendations and actions are categorised using the following 3-point scale in use on the Council's action management system

Essential		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 Audit Committee and implementation of proposed actions are monitored.
Important		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 Audit Committee and implementation of proposed actions are monitored.
Advisory		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. We will not track actions taken to address these recommendations unless at the manager's request.

FAREHAM

BOROUGH COUNCIL

INTERNAL AUDIT STRATEGY

1. Introduction

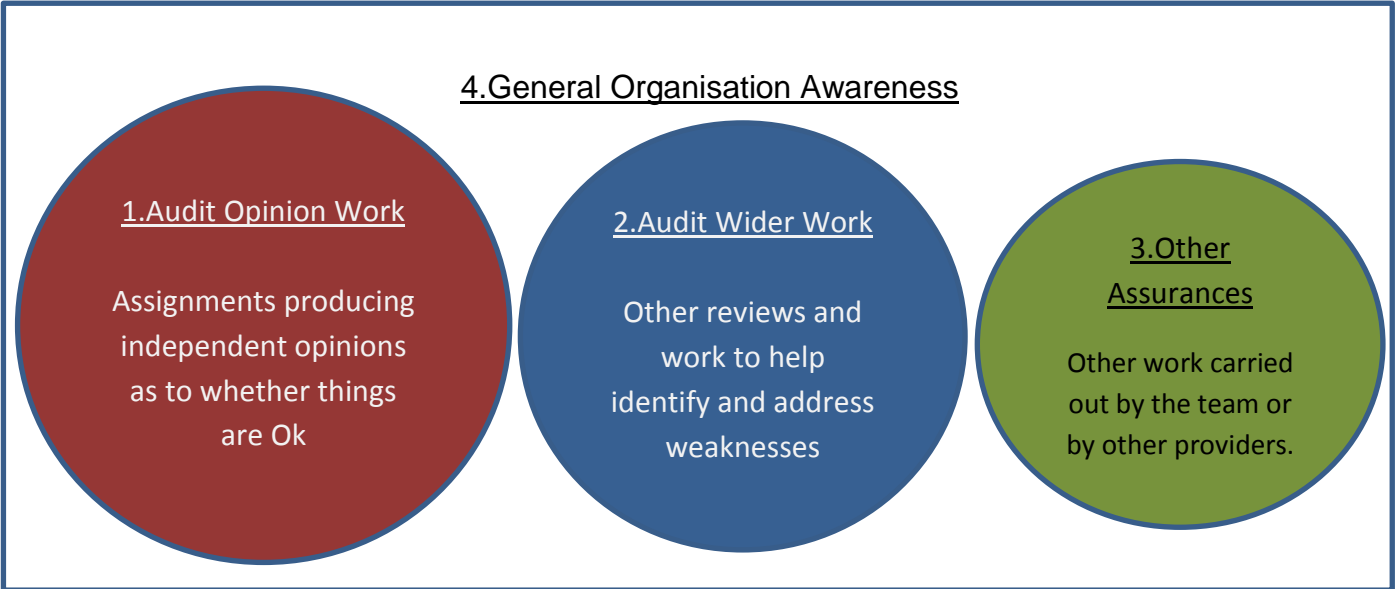
The Internal Audit Service, along with other assurance providers, forms the “third line of defence” for the Council after the controls and oversight processes established by management.

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%
	50	

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

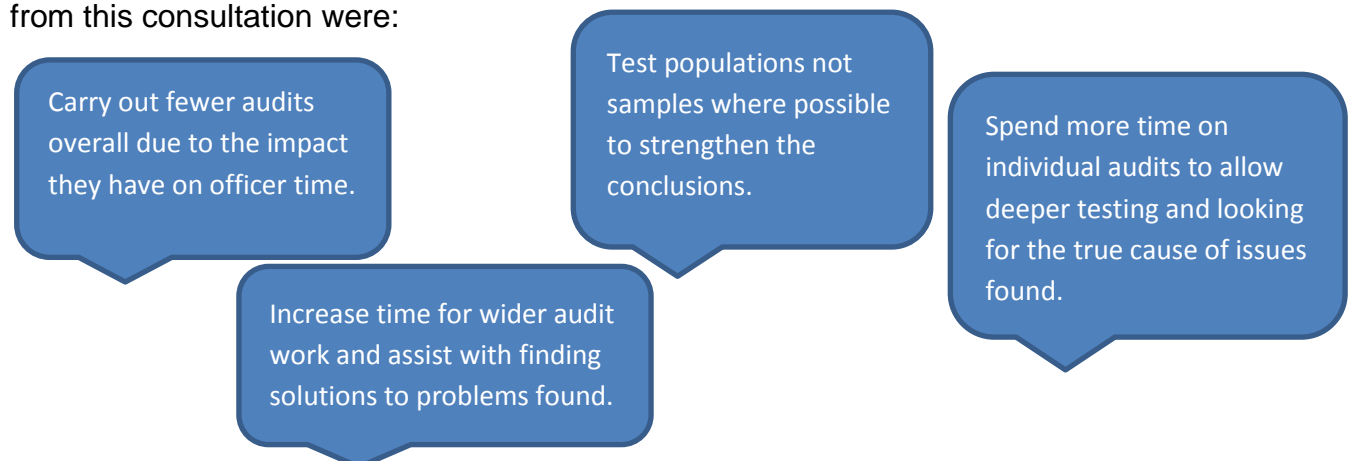
There are local factors which affect the level of audit work needed at any organisation. The South West Audit Partnership (SWAP) have piloted a model to allow Senior Managers to consider where their organisation sits within the model

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
FBC Factors decreasing the need for audit	<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.
FBC Factors increasing the need for audit	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

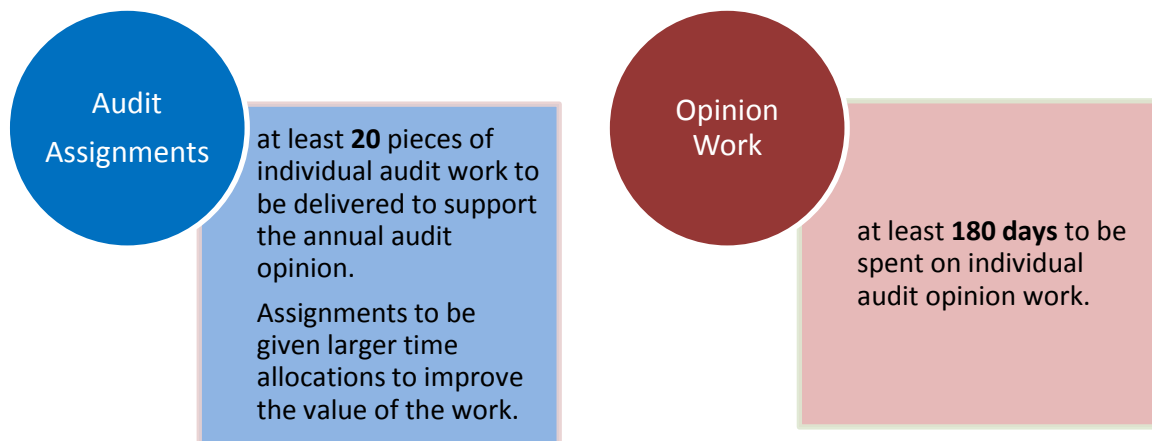
The views of the FBC Council managers were previously sought as to the nature and level of work they would like to see, and how the Audit Service fits into the “Vanguard” approach being adopted by the Council. The key messages arising from this consultation were:



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.

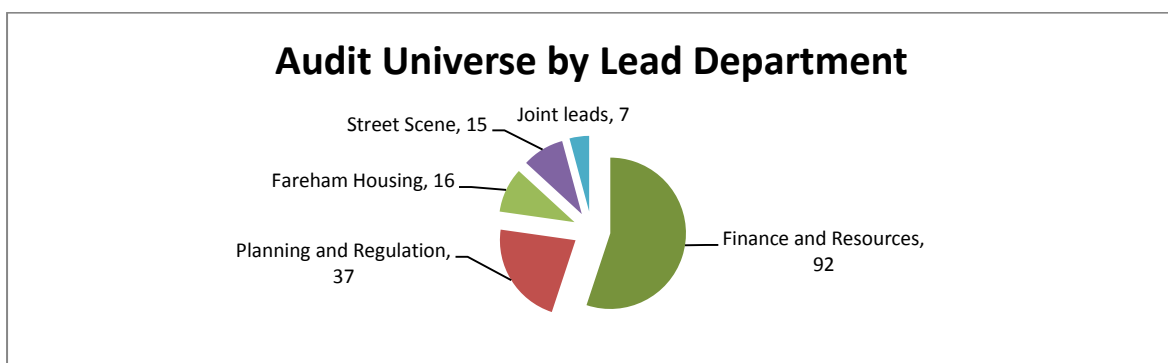
However, in setting the audit plan each year the following rules will be applied to ensure the plan is in line with trends in the profession, managers' requests and the factors affecting the local control framework:



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.

Treatment of Types of Audit when Setting the Annual Programme of Work			
Type of Audit	Number in the FBC audit universe	Minimum Number to cover each year	Notes
Fundamental Systems	12	4	All to be covered in a 3-year cycle.
Corporate, Specialist, Governance & Risk	29	1	One subject to be covered each year to support the governance opinion.
Computer	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.
Services and Systems – High Risk	25	5	All subjects to be covered in a 5-year cycle.
Services and Systems – Other	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
	167	14	

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

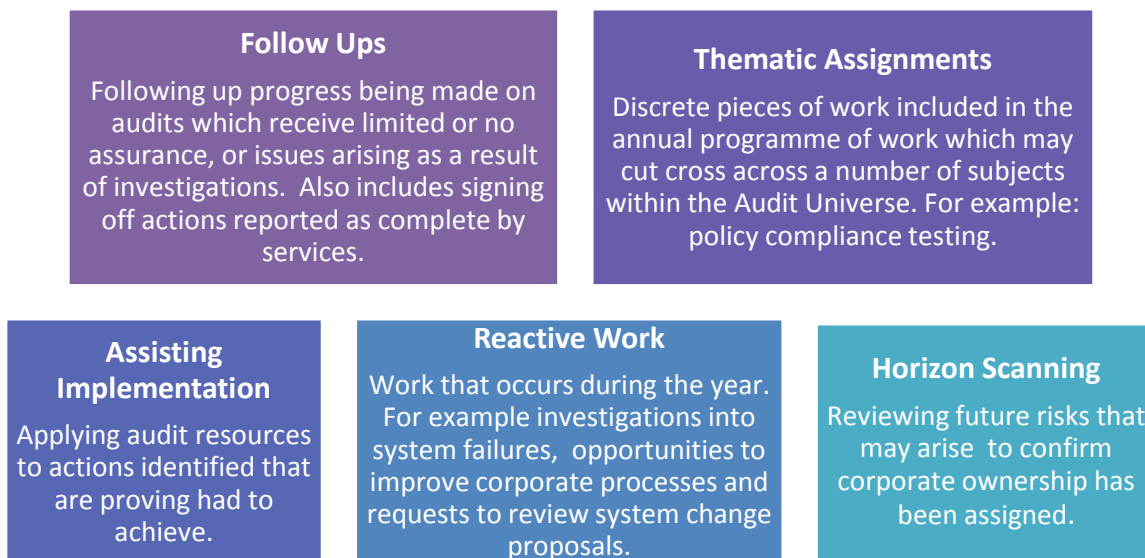
It is not possible with the current level of resources to audit all the subjects in the audit universe. Therefore, a risk assessment has been carried out to identify those subjects which are considered to be of high risk to the Council and therefore warrant a fresh audit opinion every 5 years.

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.

Summary of how the Audit Work Activities will be Resourced		
	Bought in Services	In-House Resources
Audit Opinion Work	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.
Audit Wider Work	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.
Other Assurances		Compile the other assurances

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

	Control Opinion	Governance Opinion (including information technology governance and ethics objectives)	Risk Management Opinion (including fraud)
Audit Opinion Work	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
Audit Wider Work	Recommendation Surveys Assisting implementation Audit Follow Ups Investigation Follow Ups	Themed Assignments Joint / Collaborative reviews Grant certifications Annual assurances Horizon Scanning	
Other Assurances	Reactive work including investigations External audit testing outcomes	External Assurances Partnership coverage by neighbouring councils	Counter fraud reviews
General Awareness	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	Gross Income budget (less government grants) for 2019/20 is over £500,000
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
Vehicle Management	
Sheltered Housing	Higher Risk Income is over £250,000
Holly Hill Leisure Centre	
Developers Contributions	Potentially high-income process with high reputational risk and risk of penalties
Welborne	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.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 11 March 2019
Report of: Director of Finance and Resources
Subject: INTERNAL AUDIT ANNUAL PLAN 2019/20

SUMMARY

This report presents a draft plan of Internal Audit Work proposed for delivery in 2019/20.

The Audit and Governance Committee's areas of responsibility for Internal Audit include: -

- a) to approve the internal audit plan, including internal audit's resource requirements, the use of external suppliers of audit services, and the approach to using other sources of assurance.*
- b) to approve significant interim changes to internal audit plan and resource requirements.*
- c) to make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.*

RECOMMENDATION

It is recommended that the Committee approves the draft plan for 2019/20 as attached as Appendix A.

INTRODUCTION

- a) A requirement of Internal Audit Standard 2010 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'*.
- b) At the meeting in March 2019, the Audit and Governance Committee will be asked to approve the latest Internal Audit Charter which sets out the latest information on the role and purpose of internal audit:

Internal audit role:

'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

Internal audit purpose:

'Fareham Borough Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

Internal Audit plays a vital role in assisting officers and members in the effective discharge of their responsibilities, by advising the Council whether these arrangements are in place and operating effectively. '

This is achieved through the Internal Audit service providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The Council's response to internal audit activity should lead to a strengthening of the control environment and, therefore contribute to the achievement of the organisation's objectives.

- c) At the meeting in March 2019, the Audit and Governance Committee will also be asked to approve the latest Internal Audit Strategy which sets out the principles to be used to set the Annual Plan of Internal Audit work and how the purposes set out in the Charter will be met.
- d) The annual audit plan provides a mechanism in which the Head of Audit and Assurance can ensure the most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.
- e) A draft plan of Internal Audit work for 2019/20 has been collated using these principles and giving consideration to the following:
 - (a) The Council's Corporate Strategy and key priorities; including the objective to adopt a Vanguard approach to the delivery of services.
 - (b) Initiatives, changes and risks being highlighted through the Risk Management process and Medium Term Financial Strategy; including the budgets proposed for 2019/20.
 - (c) On-going liaison with the senior and service managers of the Council.

DRAFT PLAN FOR 2019/20

- f) The draft plan prepared for 2019/20 is shown in [Appendix A](#). The following should be noted:
- (a) **Level of Opinion Audit:** There is provision in the plan for 198 days of individual audit opinion work plus an additional contingency of 32 days for the in-house team to support these audits. This exceeds the Strategy minimum of 180 days.
 - (b) **Number of Assignments:** There are 23 discrete pieces of work included in the plan covering a variety of departments in the Council. The subjects covered represent approximately 13% of the Audit Universe. There will also be reactive pieces of work completed in the year which will be used to support the Annual Audit Opinion. This exceeds the 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 5 High Risk Audits.
 - (d) **Vanguard Reviews:** One of the areas of work in the plan (Dog Control) relates to a service that has been the subject of a short vanguard intervention to address the weaknesses found in previous audits.

RESOURCING THE PLAN

- g) Resources available through the partnership with Portsmouth City Council will be used to deliver the majority of the Opinion work to ensure independence and will also be used for one of the Wider pieces of work (Assurance on Partnership Governance). They may also assist on some of the procurement testing. Two audits cover shared services with Gosport Borough Council; their audit team will therefore be delivering one of the audits (CCTV Control Centre) and Fareham Borough Council's audit of Dog Control will also provide assurance to Gosport Borough Council.
- h) The rest of the wider work will be delivered by a mixture of in-house audit and finance resources and by collaborative working with other teams in the Council.

RISK ASSESSMENT

- i) The Council has a statutory requirement to carry out internal audits of services and systems. Delivery of this plan will therefore mitigate the risk of non-compliance.

Appendices

Appendix A – Draft Audit Plan 2019/20

Background Papers: None

Reference Papers:

Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 – Public Sector Internal Audit Standards.

Report to Audit and Governance Committee on the Internal Audit Strategy and Internal Audit Charter March 2019

Enquiries:

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

APPENDIX A - Draft Internal Audit Plan 2019/20

	Type	Title	Dept-Lead Service	Days	Reason for Inclusion in Plan
	OPINION WORK				
1	Fundamental Systems	Payroll and Employee Expenses	F-Operational Finance	15	Fundamental system - last opinion given 2016/17. Will include the data analytics work for the year.
2	Fundamental Systems	Housing Rents	H-Housing	15	Fundamental system - last opinion given 2016/17
3	Fundamental Systems	Banking	F-Strategic Finance	5	Fundamental system - last opinion given 2016/17
4	Fundamental Systems	Treasury Management	F-Strategic Finance	10	Fundamental system - last opinion given 2016/17
5	Services and Systems - High Risk	Tenancy Management	H-Housing	15	High risk audit - last opinion given 2014/15
6	Services and Systems - High Risk	Parks and Open Spaces	T-Street Scene	15	High risk audit - last opinion given 2014/15
7	Services and Systems - High Risk	Street Cleansing	T-Street Scene	10	New high-risk audit based on Gross Expenditure - last opinion given 2007/08
8	High Risk / Contract Audit	Property Maintenance - Council Housing Voids	H-Housing Planned Maintenance	15	High risk audit - system change with procurement of new contractor
9	Services and Systems - High Risk	Local Plan	P-Planning Strategy	10	High risk audit - No previous opinion
10	Computer - system change	Fuel System	T-Street Scene	10	New IT system with inherent risk of fraud
11	Computer - system change	BACS processing through Bottomline	F-Strategic Finance	10	Change in Fundamental IT Process
12	Corporate/Computer	Recording of Sickness through the HR 21 system	F-Human Resources & ICT	10	Change in IT system supporting a corporate process with financial implications.
13	Services and Systems - Other	Safeguarding	P-Environmental Health	10	Manager request to review the systems which feed into the annual self-assessment - last opinion given in 2012/13
14	Services and Systems - Other	Planning advice	P-Development Management	5	To review the system behind the new charges introduced in 2019/20
15	Services and Systems - Other	Land Charges	H-Housing	10	Change in personnel administering the system. Additional testing to help clear an old audit.
16	Limited Opinion Follow Up	Dog Control Follow Up	P-Environmental Health	8	Follow up to give an updated opinion following the 'limited assurance' opinion in 2018/19. New vanguard review of approach to the service. Joint audit for Gosport BC.
17	Services and Systems - Other	CCTV Control Centre	F-ICT	10	Review of adherence to the Code of Practice for CCTV. Work to support Opportunities Plan project. Joint audit to be delivered by Gosport BC.
	Contingency			15	
	In-house support			32	
	Total Opinion Work			230	

WIDER WORK				
18	Corporate Assurance Work	Annual Testing of Procurement Decisions	Cross Cutting	New requirement in the Procurement and Contract Procedure Rules to carry out testing on spend above and below the significant value threshold to feed into the annual assurance to the Chief Executives Assurance Group. Will also include invoice testing following some findings from 2018/19 work.
19	Corporate / Contract - joint working	Contract Management	F-Democratic Services	Audit brought forward from 2018/19 to assist with the review of contract management arrangements and the rules in the requirements in the Procurement and Contract Procedure Rules
20	Certification	Disabled Facilities Grants - grant certification 2018/19	P-Environmental Health	Certification request from Ministry of Housing, Communities and Local Government
21	Thematic review	Deceased persons list	F-Corporate Services	Audit brought forward from 2018/19 to follow up of the issues raised in 2015/16 about how the council manages notifications of deceased persons.
22	Corporate Assurance Work	Assurance on Partnership Governance	F-Corporate Services	To address recommendation in the Effectiveness of the Audit Committee review in 2018/19 to clarify how the committee receives assurances on partnership governance. A new requirement in the Code of practice for Audit Committees.
23	Corporate Assurance Work	Anti-Bribery Policy	Cross Cutting	To review and update the Councils Anti Bribery Policy and test arrangements in place in support of the Policy. The Policy was scheduled for next review in 2019/20.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 11 March 2019
Report of: Head of Finance and Audit
Subject: INTERNAL AUDIT PROGRESS REPORT

SUMMARY

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

The Audit and Governance Committee's areas of responsibility for Internal Audit include:-

- a) to approve significant interim changes to the internal audit plan and resource requirements.*
- b) to make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.*
- c) to review updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.*

RECOMMENDATION

It is recommended that the Committee notes the progress and findings arising from Internal Audit work.

INTRODUCTION

1. This report highlights the progress made to date on the delivery of the Internal Audit Plans and the assurances that can be obtained from the work now completed.

PROGRESS OF 2018/19 AUDIT PLAN

2. The original plan for the year contained 25 audits. As previously reported there have been 3 changes to the plan resulting in one audit being added, one being removed and another being postponed until next year's plan.
3. A further change to the plan has been made in that an extra piece of wider work has been added which will look at the control framework around the schemes available to the Housing Options team to help prevent people becoming homeless, and how this feeds in the debt recovery processes. To accommodate this audit, we will postpone the work on the "Deceased Persons list" until the 2019/20 audit plan.
4. We are also now proposing to change the "Use of depot storage areas and security of plant, equipment and materials" audit to a reactive rather planned audit. This is because this audit is not in our control to deliver and the latest estimates are that our advice will not be needed until the summer when the depot refurbishment contract is in place.
5. Work has started to deliver the rest of the plan such that 17 of the remaining 23 audits are at least at the fieldwork stage and the first 9 audits have now been finalised, as detailed in Appendix Two. We have now completed the recruitment of additional resources in the two teams which should assist our target of 20 audits being ready to support the Annual Audit Opinion in July 2019.

FINALISING PREVIOUS AUDIT PLANS

6. The current status of the 9 audits remaining from the previous Audit Plans is detailed in Appendix One. Work has continued on the two 2017/18 audits in particular which should get them to a final report in the coming months.

FINDINGS FROM COMPLETED AUDITS

7. The four latest final reports that have been issued are listed below with the opinions given and number of recommendations made:

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
Accounts Payable	Strong	-	-	-
Vehicle Management	Strong	-	2	-
Capital Expenditure & Accounting	Reasonable	-	-	2
Housing Communal Services	Reasonable	1	-	-

8. Detail of the recommendations made and the actions to be taken is provided in Appendix Three.

RISK ASSESSMENT

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

Appendices:

Appendix One - Update on Outstanding Audits from Previous Plans

Appendix Two - Audits in the 2018/19 Audit Plan

Appendix Three - Findings from the Latest Completed Audits

Appendix Four - Reference Tables

Background Papers: None

Reference Papers:

Report by the Director of Finance and Resources to the Audit and Governance Committee on 10 March 2014 on the Contractor Annual Audit Plan 2014/15

Report by the Director of Finance and Resources to the Audit and Governance Committee on 16 March 2015 on the Internal Audit Strategy and Annual Audit Plan 2015/16

Report by the Head of Finance and Audit to the Audit and Governance Committee on 14 March 2016 on the Internal Audit Plan 2016/17

Report by the Head of Finance and Audit to the Audit and Governance Committee on 17 March 2017 on the Internal Audit Plan 2017/18

Report by the Head of Finance and Audit to the Audit and Governance Committee on 18 March 2018 on the Internal Audit Plan 2018/19

Enquiries:

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

Update on Outstanding Audits from Previous Plans

The following table shows those audits that were outstanding in the last quarterly report and shows the current position with finalising the work.

Audit Title	Type of Audit**	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
					Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
2014/15										
Information Governance Opinion	Computer	6	Stage 8							
Contract Completion	Corporate, Specialist, Governance	10	Stage 8							
2015/16										
Land Charges	Service and Systems – HR	12	Stage 8							
2016/17										
Daedalus Operating Contracts	Service and Systems – HR	12	Stage 9							
Cloud Based Computing	Computer	15	Stage 8							
Leaseholder Charges	Joint working project		Stage 5							
Building Health and Safety Risks	Follow Up / Joint working		Stage 9							
2017/18										
Commercial Estates	Service and Systems – HR	15	Stage 9							
Risk Inspections of Public Areas	Thematic Review		Stage 4							

* A key to the information in this column is given in Appendix Five.

APPENDIX TWO

Audits in the 2018/19 Plan

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
OPINION AUDITS											
1	Council Tax and NNDR	Fundamental System	15	Stage 10	Strong	-	1	-	2	-	1
2	Capital Expenditure & Accounting		10	Stage 10	Reasonable	-	-	-	2	-	2
3	Accounts Payable		10	Stage 10	Strong	-	-	1	1	-	-
4	Fixed Assets		10	Stage 4							
5	Cemeteries & Closed Churchyards	Service and Systems – High Risk	15	Stage 4							
6	Housing Grants & Home Improvements		10	Stage 10	Reasonable	1	1	-	-	2	-
7	Parking Strategy and Income		15	Stage 10	Reasonable	-	2	-	4	1	2
8	Vehicle Management		15	Stage 10	Strong	-	2	-	5	2	-
9	Housing Communal Services		10	Stage 10	Reasonable	1	-	-	3	-	-
10	Planning Applications		15	Stage 1							
11	Markets Contract	Service and Systems - Other	5	Stage 1							
12	Out of hours service		12	Stage 1							
13	Orchard (Housing Rents IT system)	Computer	15	Stage 1							
14	Software Control Follow up		8	Stage 5							
15	Ferneham Hall Follow up	Follow Up	10	Stage 5							
16	Dog Control Follow up		5	Stage 10	Limited	-	-	-	1	-	6
	Contingency / In-house support		50								
	Total Planned Time		230								
WIDER WORK											
17	Insurance claimants who have been the subject of fraud investigations	Computer - data analytics		Stage 10	Not applicable	-	-	-	-	-	-

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
18	Review of compliance with new CIPFA guidance on Audit Committees (ADDED)	Publication review		Stage 6							
19	Housing Maintenance invoicing and stock control - part 2	Post investigation systems work		Stage 5							
20	Write Offs History Analysis & Interest charges	Thematic review		Stage 4							
21	Housing Options Debtors (ADDED)	Thematic Review		Stage 4							
22	Review of all outstanding IT audit recommendations	Follow Up		Stage 1							
23	Review of all other outstanding audit recommendations	Follow Up		Stage 1							
	Use of depot storage areas and security of plant, equipment and materials.	Joint working project		To now be treated as reactive work							
	Deceased persons list	Thematic Review		Postponed to next year							
	Contract Management	Corporate / Contract - joint working		Postponed to next year							
	General Data Protection Regulations - Responding to database search requests	Corporate - joint working		Deleted							

APPENDIX THREE

Finding from the Latest Completed Audits

Audit Title	Accounts Payable Audit	<p>Overview of Subject: The Exchequer team are responsible for approval and payment of invoices owed by the Authority.</p> <p>The Authority received 16,458 invoices with a value of £206,451,769 between December 2017 and December 2018. Payment of invoices is managed through a two-tier authorisation process including line managers and finance officers. The service dealt with 7,875 unique suppliers in the year reviewed and has sought to streamline the way that it pays its creditors by reducing the use of cheques in favour of BACS payments.</p>
Year of Audit	2018/19	
Type of Work	Opinion Audit – Fundamental	
Assurance Opinion Given	Strong	
Direction of Travel	↑ 2016/17	

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Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Not Implemented
Payment Performance			-	-	-	-	-	-
Duplicate payments			-	-	-	-	-	-
Segregation of duties			-	-	-	-	-	-
Management of Masterfile data			-	-	1	-	-	-
Invoice Processing			-	-	-	-	-	-
ICT Controls System Access			-	-	-	-	-	-
Prompt payment discounts			-	-	-	-	-	-
Methods of Payment			-	-	-	-	-	-
VAT coding			-	-	-	-	-	-
Invoice Scanning			-	-	-	-	-	-
Credit Notes			-	-	-	-	-	-
Suppliers paid via direct debit			-	-	-	-	-	-
Aged Creditors Management			-	-	-	1	-	-

Audit Title	Vehicle Management	Overview of Subject: The Fareham Borough Council Asset Register details 116 Vehicles as at 31 March 2018, with a total net book value of £1.542M The management of these vehicles is the responsibility of the Transport Manager. Vehicle information including servicing, MOT tests and maintenance is consolidated into one spreadsheet which provides an overview of how much work is carried out on each vehicle.
Year of Audit	2018/19	
Type of Work	Opinion Audit – High Risk	
Assurance Opinion Given	Strong	
Direction of Travel	↑ 2006/07	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Not Implemented
Inspections Maintenance and MOT			-	-	-	2	-	-
Vehicle and Plant Replacement Programme			-	-	-	-	-	-
Order and Invoice Process			-	-	-	1	2	-
Vehicle Asset Register			-	-	-	-	-	-
Record Keeping of works to vehicle			-	-	-	-	-	-
Imprest Stock/Stock			-	2	-	2	-	-

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Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Documentation of Imprest Stock Orders: On discussion with the Transport Manager it was ascertained that both suppliers of imprest stock visit the depot on a regular basis. At these visits the stock levels and suitability are reviewed and amended where necessary. Paperwork was sighted in relation to the visits from one supplier but not the other. Whilst the paperwork was requested it has not yet been received, which implies that documentation is not being supplied or retained as a matter of course. It was agreed that documents will now be obtained from the suppliers to confirm the stock levels and items ordered during the regular visits.
Important	Obsolete Stock: On discussion with the Transport Manager it was ascertained that there are some items held in stock which are now deemed obsolete and have been held for several years. The Transport Manager is currently working through these to dispose of them. It was also noted during the conversation that when some vehicles are beyond economic repair they are "cannibalised" for parts which can be used by vehicles still in service. These parts are not currently recorded as stock. It was agreed that these will now be recorded so that a full audit trail of parts used in the repair of vehicles is in place.

Audit Title	Capital Expenditure & Accounting	Overview of Subject: Capital expenditure is an amount spent to acquire or improve a long-term asset. The cost is then charged through depreciation over the useful life of the asset, rather than charging it immediately as an expense to the revenue account. The capital programme is included in the Financial Strategy of the Council and covers the period 2017/18 to 2021/22. The provision for 2018/19 was approximately £12.5 million.
Year of Audit	2018/19	
Type of Work	Opinion Audit – Fundamental System	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔ 2015/16	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation		
			Essential (🚨)	Important (▲)	Advisory (ℹ)	Implemented	Cancelled	Not Implemented
Capital Strategy and Policies			-	-	-	-	-	-
New Capital Projects Appraisal & Approval			-	-	-	-	-	1
Financing of Schemes			-	-	-	-	-	-
Capital Programme Setting and Phasing			-	-	-	-	-	-
Capital Programme Monitoring & Budgetary Control			-	-	-	2	-	1
Capital Charges/depreciation/MRP			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Previous Important	New Capital Projects Appraisal & Approval: In the previous audit it was noted that the Council wanted to move to the accountants taking the lead on project appraisals by having conversations with the services, using a checklist to help carry out the evaluation. This checklist has only recently been launched with the accountants and still needs to be tested on new capital schemes coming along. The revised Prudential Code 2017 requires the Council to have a Capital Strategy in place and future versions of the Strategy will make reference to the check list use by Finance Business Partners (FBPs) to discuss with the service managers.
Previous Important	Transparency of Capital Programme Overspends where projects cover more than 1 year: Whilst monitoring of the Capital programme occurs regularly, the reports presented to the Executive are not clear as to the total cost of projects which span more than one year. Therefore, overspends on these projects are not so clear. The way in which this will be reported in the future is being reviewed.

Audit Title	Housing – Communal Services	<p>Overview of Subject: There are currently 2,404 housing properties. Due to many of these being in blocks of flats, there are communal services, such as lighting, caretaking, cleaning and maintenance of lawns, provided to the block which are then recharged to individual tenants as an additional service charge to their housing rent.</p> <p>2,029 properties currently attract service charges, and 721 are charged a sum in excess of 5% of their total rental payment.</p> <p>Housing Communal Services was reclassified as a high-risk audit in the 2017/18 risk assessment based on the level of the fees and charges income exceeding £250,000 per year.</p>
Year of Audit	2018/19	
Type of Work	Opinion Audit – High Risk	
Assurance Opinion Given	Reasonable	
Direction of Travel	↓2002/03	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Not Implemented
Confirmation that processes are in place			-	-	-	-	-	-
Accuracy of utility bills			-	-	-	2	-	-
Calculation of Service Charges			-	-	-	1	-	-
Recovery of Service Charges			-	-	-	-	-	-
Accuracy of Refunds			-	-	-	-	-	-
Level of Service			1	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)

Essential	<p>Accurate Charging for Services: Although not identified during testing, complaints were reported to have occurred due to errors occurring in service charges, particularly where alarms had been removed. Documentation available also didn't make dealing with the complaints easy leading to delays in issuing the refunds due. The new manager of the service is to set up a process to make the incidents visible to understand where the processes are failing and take appropriate action.</p>
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Reference Tables

1. Scale of Assurance Opinions

Strong	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.
Reasonable	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.
Limited	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.
Minimal	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.

2. Scale of Recommendation Priorities

Essential	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.
Important	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.
Advisory	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.

3. Stages of An Audit Assignment

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

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 11 March 2019
Report of: Monitoring Officer
Subject: CONSTITUTION UPDATES

SUMMARY

As part of the ongoing work to review and maintain an up to date Constitution Officers have been working closely with the Southampton Legal team to identify areas of the Constitution document that need updating. As part of this work two sections of the Constitution have been identified as requiring updates and are outlined in Appendix A and B of this report for the Committees approval.

The Audit and Governance Committee's areas of responsibility for Corporate Governance are to review and make recommendations to Council on the Constitution, except where its role is purely to give effect to areas of responsibility relating to Executive Arrangement which are the sole responsibility of the Leader to determine.

RECOMMENDATION

It is recommended that the Committee: -

- (a) agree the updates to the Constitution as set out in Appendix A and B to the report; and
- (b) recommends the updates to Council for approval.

INTRODUCTION

1. The Council's Constitution is under constant review and with the help of the Constitution log, which is a spreadsheet created to keep a record of all sections of the document, Officers have been able to identify sections that are either out of date or in need of reviewing. The Democratic Service Team, with the help of the Legal Team have identified two sections of the Constitution that are in need of updating. These sections are: -
 - Part Three – Chapter 1 – Access to information procedure rules
 - Part Three – Chapter 3 – Notice of Key Decisions and Key Decisions

The updates identified are shown in Appendix A and B to this report.

BACKGROUND

2. In March 2018 the Audit and Governance Committee were informed of ongoing work to update and review the Council's Constitution. The first phase of this work was to revamp the Constitution webpages. This work is now complete.
3. The next phase of work is to look at each section of the Constitution in more detail and ensure that the document is up to date and in line with current legislation. This is to be achieved by the Democratic Services Team holding regular meetings with the Southampton Legal Team.
4. There were various legislation changes between 2011 and 2015, by which the localism act governing the rules within the Council's Constitution has been changed. Not all of these changes have been captured within the Constitution document. The aim of these meetings is to read through each section of the Constitution and capture the updates required. Therefore, the close working with the legal team is paramount.

UPDATES IDENTIFIED

5. Officers used the Constitution log to identify Part Three of the Constitution to be the first section to be looked at in more detail. This section was chosen as a priority with the work as it contains the rules about the way in which the Council must operate and make decisions and specifies how and when information will be made available to the public.
6. Part Three is made of 12 Chapters so the intension is for Officers to work through each chapter in turn. Chapter 1 – Access to information procedure rules was discussed at length and some updates were identified. These are set out in Appendix A to this report.
7. Through discussions, namely around Part Three, Chapter 1, paragraph 1.16, Officers identified that Chapter 3 – Notice of Key Decisions and Key Decisions also needed updating, which is why both of these sections have been brought together to the Audit and Governance Committee for approval.

NEXT STEPS

8. The Audit and Governance Committee are required to agree the updates to both sections of the Constitution as outlined in Appendix A and B to this report.

9. Council will then be asked to approve the updates, before Officers can make any changes to the Constitution document. The website and master documents will be updated along with the Constitution log to ensure a record of all updates is maintained.

RISK ASSESSMENT

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

CONCLUSION

11. It is recommended that the Committee: -
 - a) agree the updates to the Constitution as set out in Appendix A and B to the report; and
 - b) recommends the updates to Council for approval.

Background Papers: None

Reference Papers: The Council's Constitution

Audit and Governance Committee – Minutes - 12 March 2018

Appendices – Appendix A - Part Three – Chapter 1 – Access to Information
Procedure Rules

Appendix B - Part Three – Chapter 3 – Notice of Key Decisions and
Key Decisions

Enquiries:

For further information on this report please contact Leigh Usher. (Ext: 4553)

The Constitution - Part Three - Chapter 1 - Access to information procedure rules

Scope

- 1.1 These rules will apply to all meetings of the Council, the Scrutiny Panels, Committees and meetings held in public of the Executive (together called meetings).

Additional Rights to Information

- 1.2 These rules do not affect rights to information contained elsewhere in this Constitution or the law.

Rights to Attend Meetings

- 1.3 Members of the public may attend all meetings subject only to the exceptions in these rules.

Notices of Meetings

- 1.4 The Council will give at least five clear working days' notice of any meeting by publishing details of the meeting at the Civic Offices, Civic Way, Fareham, Hampshire and the Fareham Borough Council website.

Access to Agendas and Reports before Meetings

- 1.5 The Council will make copies of the relevant agenda and reports, that are open to the public, available for inspection at the designated office at least five clear working days before a meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time that item was added to the agenda. Where reports are prepared after the summons has been sent out, the designated officer shall make each such report available to the public as soon as the report is completed and sent to councillors.

Supply of Copies

- 1.6 The Council will supply copies of:
- a) any agenda and reports which are open to public inspection;
 - b) any further statements or particulars necessary to indicate the nature of the items in the agenda; and

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- c) if the Chief Executive Officer thinks fit, copies of any other documents supplied to members in connection with an item to any person on payment of a charge for postage and any other costs.

Access to minutes etc. After the meeting

- 1.7 The Council will make available copies of the following for six years after a meeting:
 - a) the minutes of the meeting or records of decisions taken, together with reasons, for all meetings of the Executive, excluding any part of the minutes of proceedings when the meeting was not open to the public or which disclose exempt or confidential information;
 - b) a summary of any proceedings not open to the public where the minutes open to inspection would not provide a reasonably fair and coherent record;
 - c) the agenda for the meeting; and
 - d) reports relating to items when the meeting was open to the public.

Background papers

List of background papers

- 1.8 The proper officer will set out in every report a list of those documents (called background papers) relating to the subject matter of the report which in his/her opinion:
 - a) disclose any facts or matters on which the report or an important part of the report is based; and
 - b) which have been relied on to a material extent in preparing the report.

but do not include published works or those which disclose exempt or confidential information (as defined in Rule 1.11) and in respect of Executive reports, the advice of a political adviser.

Public inspection of background papers

- 1.9 The Council will make available for public inspection for four years after the date of the meeting one copy of each of the documents on the list of background papers.

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Summary of public's rights

- 1.10 A written summary of the public's rights to attend meetings and to inspect and copy documents is available for inspection at the Civic Offices, Civic Way, Fareham, Hampshire.

Exclusion of access by the public to meetings

Confidential information – requirement to exclude public

- 1.11 The public will be excluded from meetings whenever it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that confidential information would be disclosed.

Meaning of confidential information

- 1.12 Confidential information means information given to the Council by a Government Department on terms that forbid its public disclosure or information which cannot be publicly disclosed by Court Order.

Exempt information – discretion to exclude public

- 1.13 The public may be excluded from meetings whenever it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that exempt information would be disclosed. Where the meeting will determine any person's civil rights or obligations, or adversely affect their possessions, Article 6 of the European Convention of Human Rights establishes a presumption that the meeting will be held in public, unless a private hearing is necessary for one of the reasons specified in Article 6.

Meaning of exempt information

- 1.14 Exempt information as defined by the Local Government Act 1972 (as amended) means information falling within the categories set out in the Appendix to this Chapter (subject to any condition).

Exclusion of access by the public to reports

- 1.15 If the Proper Officer thinks fit, the Council may exclude access by the public to reports which in his or her opinion relate to items during which, in accordance with Rules 1.11 and 1.12, the meeting is likely not to be open to the public. Such reports will be marked 'Not for publication', together with the category of information likely to be disclosed.

Commented [HA1]: Paragraph numbering changed.

Commented [HA2]: These paragraphs have been swapped so that the meaning follows the information.

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Application of rules to the Executive

1.16 Rules 1.1-1.15 above shall apply to meetings of the Executive and its Committees in relation to 'key decisions', as defined in the Council's Constitution if they:

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- a) meet to take a key decision; or
- b) meet with an officer, other than a political adviser present, to discuss a key decision to be taken collectively within 28 days of the date, according to the notice of key decisions, by which it is to be decided; or
- c) meet to take a decision under a or b above which includes exempt information provided that 28 days' notice has been provided in accordance with the Notice of Key Decisions.

Commented [HA3]: Additional bullet point added to include items that include exempt information.

except for those cases where the sole purpose of the meeting is for officers to brief members, or the provisions of either of the exceptions in these rules or for urgent decisions apply.

Additional rights of access for members

Material relating to previous business

1.17 All members will be entitled to inspect any document which is in the possession, or under the control, of the Executive or its Committees and contains material relating to any business previously transacted at a private meeting unless it either:

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- a) contains exempt information falling within paragraphs 1.1 to 1.6, 1.9, 1.11, 1.13 and 1.14 of the categories of exempt information; or
- b) contains the advice of a political adviser.

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Material relating to key decisions

1.18 All members of the Council will be entitled to inspect any document (except those available only in draft form) in the possession of or under the control of the Executive, or its committees, which relates to any Key Decision unless paragraph 1.17 (a) or (b) above applies.

Nature of rights

1.19 These rights of a member are additional to any other rights that he/she may have.

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APPENDIX

Descriptions of exempt information

1. Information relating to any individual.
2. Information which is likely to reveal the identity of an individual.
3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).
4. Information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority.
5. Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.
6. Information which reveals that the authority proposes
 - a. to give under any enactment a notice under or by virtue of which requirements are imposed on a person; or
 - b. to make an order or direction under any enactment.
7. Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

Qualifications

8. Information falling within paragraph 3 above is not exempt information by virtue of that paragraph if it is required to be registered under
 - a. the Companies Act 1985;
 - b. the Friendly Societies Act 1974;
 - c. the Friendly Societies Act 1992;
 - d. the Industrial and Provident Societies Acts 1965 to 1978;
 - e. the Building Societies Act 1986; or
 - f. the Charities Act 1993.
9. Information is not exempt information if it relates to proposed development for which the local planning authority may grant itself planning permission pursuant to regulation 3 of the Town and Country Planning General Regulations 1992[9].
10. Information which
 - a. falls within any of paragraphs 1 to 7 above; and
 - b. is not prevented from being exempt by virtue of paragraph 8 or 9 above, is exempt information if and so long, as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. (reference: The Local Government (Access to Information) (Variation) Order 2006)

The Constitution - Part Three - Chapter 3 - Notice of Key Decisions and Key Decisions

Contents of the Notice of Key Decisions

3.1 The Notice of Key Decisions provides 28 days-notice as required by virtue of Regulation 5(2) and 9(2) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulation 2012. It will contain details of all matters that are likely to be the subject of a key decision (as defined by the Regulations) taken by the Executive or by an individual Executive Member in the authority in the following four months. It will be drawn up in the name of the Executive Leader and updated monthly and will contain:

- a) the matter in respect of which the decision is to be taken;
- b) where the decision-taker is an individual e.g. an officer with delegated powers, his/her title and, where the decision-taker is a body e.g. a joint committee, its name;
- c) the date on which, or the period within which, the decision is to be taken;
- d) the identity of the principal groups or organisations whom the decision-taker proposes to consult before making the decision;
- e) the means by which any such consultation is proposed to be undertaken;
- f) the steps that may be taken by any person who wishes to make representations to the executive/decision maker about the matter in respect of which the decision is to be taken and the date by which those steps are to be taken; and
- g) a list of the documents submitted to the decision-maker for consideration in relation to the matter in respect of which the decision is to be made (unless exempt information).

h) any item that may in whole or part be held in private for one or more of the reasons set out in Schedule 12A of the Local Government Act 1972(Exempt Information)

Commented [LJ1]: UESED TO SAY: The Notice of Key Decisions will contain details of all matters likely to be the subject of a key decision in the authority in the following four months. It will be drawn up in the name of the Executive Leader and updated monthly and will contain:

Commented [LJ2]: Additional bullet point added to include the need for exempted items to be added to the notice

APPENDIX B – Audit and Governance Committee 11 March 2019

Key Decisions

3.2 A key decision is defined as being an Executive decision that is likely:

- a) to result in the local authority incurring expenditure which is, or making savings which are significant, having regard to the authority's budget for the service or function to which the decision relates; or
- b) to be significant in terms of its effects on communities living or working in an area comprising two or more wards or electoral divisions.

Publicity for Key Decisions

3.3 The public notice accompanying the Notice of Key Decisions will state:

- a) that key decisions are to be taken on behalf of the authority;
- b) that a Notice of Key Decisions, containing particulars of the matters in respect of which those decisions are to be taken, will be prepared on a monthly basis;
- c) the period for which the Notice of Key Decisions Plan is to have effect
- d) that the Notice of Key Decisions may be inspected at all reasonable hours and free of charge at the authority's offices;
- e) that the Notice of Key Decisions contains a list of the documents submitted to the decision-takers for consideration in relation to the matters in respect of which decisions are to be taken;
- f) the address from which, subject to any prohibition or restriction on their disclosure, copies of, or extracts from, any documents listed in the Notice of Key Decisions is available;
- g) that other documents relevant to those matters may be submitted to the decision-takers;
- h) the procedure for requesting details of those documents (if any) as they become available, and

Exceptions for cases of urgency

3.4 Where it is impractical to include a key decision on the Notice of Key Decisions for reasons of urgency, the Proper Officer must, with five clear days notice:

Commented [LJ3]: Deleted as no longer required under the Localism Act 2011

Commented [LJ4]: Deleted as requirements removed under the Localism Act 2011

Commented [LJ5]: Deleted as requirement removed under the Localism Act 2011

APPENDIX B – Audit and Governance Committee 11 March 2019

- a) notify in writing the chairman of the relevant Scrutiny Panel of the matter in relation to which the decision is to be made; and
- b) make a notice available at the Civic Offices, again detailing the matter in relation to which the decision is to be made.

3.5 There is a further provision for cases of special urgency and where even five clear days notice is not possible. In such cases, the decision-maker must obtain the agreement of the chairman of the relevant Scrutiny Panel that a decision cannot reasonably be deferred. In the absence of the agreement of the chairman of the relevant Scrutiny Panel, agreement can be sought from the chairman or vice-chairman of the authority i.e. the Mayor or Deputy Mayor.

Reporting of Key Decisions not published

- 3.6 Where the Executive or anyone acting on its behalf, makes a decision not contained on the Notice of Key Decisions that the relevant Scrutiny Panel is of the opinion is/was a Key Decision and where the decision has not been agreed to be an urgent decision, the relevant Scrutiny Panel may require the Executive to submit a report to Council. The report must contain details of the decision made and the decision taker and the reasons for it not being a key decision.
- 3.7 The Executive Leader is also required to submit a quarterly report to Council on the decisions taken within the previous three months under the provisions for cases of special urgency described above. The report must set out the number of such decisions taken and a summary of the matters in respect of which the decisions were taken

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 11 March 2019
Report of: Director of Finance and Resources
Subject: ANNUAL REPORT OF THE COMMITTEE

SUMMARY

This report summarises the work carried out by the Audit and Governance Committee during 2018/19 and proposes the programme of work for 2019/20.

RECOMMENDATION

It is recommended that the Committee: -

- a) notes the contents of the report; and
- b) submits the work programme for 2019/20, as shown in [Appendix A](#), to Council for endorsement.

INTRODUCTION

1. This annual report summarises how this Committee has performed during 2018/19 in relation to the purpose and functions set out in the constitution.

COMMITTEE ORGANISATION 2018/19

2. 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". One exception is that the Vice-chairman is also an Executive member. This was reviewed during a recent audit of the Audit Committee arrangements and was not considered a significant problem due to a) the difference between the decision-making and governance roles is well understood and, b) the chairman of the Committee is not also the chairman of the Executive or any Scrutiny Panels.
3. The Committee met four times in the year and reported directly to the Council. It was comprised of seven members who reflect the political balance of the Council. The committee was supported in its work by the Director of Finance and Resources.

COMMITTEE ACTIVITY IN 2018/19

4. The work being carried out by the Committee to fulfil its responsibilities is reported as a work programme to each Committee. The following points should be noted:
 - (a) The Committee was not requested to review any issues by the Chief Executive Officer, any director or Council body during the year.
 - (b) There were no issues arising from the review of the Statement of Accounts and subsequent external audit report that the Committee felt needed to be brought to the attention of the Council.
 - (c) The Committee requested further information to be provided in respect of:
 - Housing framework agreements (provided July 2018)
 - Member and Officer Protocol (provided August 2018)
 - Action plan following the contract completion audit (still to come)
5. All reports in the original work programme were presented to the Committee. There were three additional pieces of work carried out by the Committee in addition to the original work programme set in March 2018 which are listed below:

July 2018	Updates to the appointment of the external auditors for the certification work.
November 2018	Annual report on changes to the Constitution
March 2019	Additional constitution update

TRAINING EVENTS

6. Members of the Committee received a presentation on the proposed new Procurement and Contract Procedure Rules during their meeting in July 2018.
7. A specific briefing session about the operation of the Committee was provided to 3 new members of the Committee joining during the year.
8. The chairman and vice-chairman also took part in the internal audit of compliance with the new CIPFA guidance on Audit Committees, which involved discussions on the purpose, functions and effectiveness of the committee. The auditors carrying out the audit had experience of the Audit Committees at other Councils.

WORK PROGRAMME 2019/20

9. The proposed work plan for the Committee for 2019/20 is attached as [Appendix A](#).

RISK ASSESSMENT

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

CONCLUSION

11. The work programme in place is appropriate to meet the responsibilities of the Committee.

Appendices: [Appendix A](#) – Proposed Work Programme for 2019/20

Background Papers: None

Reference Papers: Minutes of and reports to Audit and Governance Committee for the Municipal Year 2018/19

Enquiries:

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

WORK PROGRAMME FOR 2019/20

Committee Function and Report Subject		Frequency	Last Covered	July 2019	September 2019	November 2019	March 2020
COMMITTEE WORKING ARRANGEMENTS							
Review of Work Programme and training plan		Quarterly	2018-19	YES	YES		YES, and Annual Report
Review of the Functions of the Committee		3 yearly	2016-17		YES		
Review of the Constitution		Annual	2018-19			YES	
ETHICAL FRAMEWORK AND STANDARDS							
Standards of Conduct	Review of Code of Conduct for Members	As needed	2015-16				
	Review of member / officer protocol	As needed	2008-09				
	Overview of Complaints against the Council	Annual	2018-19		YES		
Member Training and Development	Review of Members Training and Development Programme	As needed	2015-16				
GOVERNANCE FRAMEWORK							
Framework	Local Code of Corporate Governance	As needed	2016-17				
	Annual Governance Statement	Annual	2018-19	YES			
Key Policy	Review of Financial Regulations	3 yearly	2018-19		YES		
	Review of Contract Procedure Rules	3 yearly	2018-19				
	Treasury Management Policy and Strategy	Annual	2017-18			YES	YES - Policy and indicators
Risk Management	Policy	As needed	2016-17				
	Risk Management Monitoring Reports	6 monthly	2018-19		YES		YES
	Business Continuity	3 yearly	2018-19				
	Specific Risk Management topics	As needed	None				
Counter Fraud	Counter Fraud Policy and Strategy	3 yearly	2016-17			YES	
	Anti-Bribery Policy	As needed	2011-12			YES	
	Sanctions and Redress Policy	As needed	2016-17				
	Counter Fraud Annual Report	Annually	2018-19	YES			
INTERNAL AUDIT ASSURANCE							

Committee Function and Report Subject	Frequency	Last Covered	July 2019	September 2019	November 2019	March 2020
Internal Audit Strategy	3 yearly	2018-19				
Internal Audit Annual Plan	Annual	2018-19				YES
Internal Audit Progress Report	Quarterly	2018-19	YES	YES	YES	YES
Head of Audit's Annual Opinion	Annual	2018-19	YES			
EXTERNAL ASSURANCE						
Update on Arrangements for Appointment of External Auditors	As needed	2018-19				
Annual Plan and Fee	Annual	2018-19				YES
Annual Audit Letter	Annual	2018-19		YES		
Annual Certification Report	Annual	2018-19			YES	
Specific reports from inspection agencies	As needed	2018-19 (RIPA)				
STATEMENT OF ACCOUNTS						
Statement of Accounts	Annual	2018-19	YES			
External Audit – Audit Results Report	Annual	2018-19	YES			
OTHER						
Updates on legal issues	As needed	2017-18				
Issues referred from the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				
Number of Items			7	7	6	6

