

FAREHAM

BOROUGH COUNCIL

AGENDA

AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 14 March 2022

Time: 6.00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor T Davies (Chairman)

Councillor S D Martin (Vice-Chairman)

Councillors P J Davies
G Fazackarley
Mrs T L Ellis
N R Gregory
G Kelly

Deputies: S Dugan
J S Forrest
L Keeble



1. Apologies

2. Minutes (Pages 5 - 8)

To confirm as a correct record the Minutes of the Audit and Governance Committee meeting held on the 22 November 2022.

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 Auditor's Audit Results Report (Pages 9 - 58)

To consider a report from the Deputy Chief Executive Officer presenting the External Auditors (Ernst and Young) Audit Results Report and latest version of the 2020/21 Statement of Accounts.

7. Annual Certification Report (Pages 59 - 62)

To consider a report by the Head of Housing and Benefits on the findings from the 2020/21 housing benefit subsidy work carried out by the designated External Auditors (KPMG).

8. Risk Management Monitoring Report (Pages 63 - 80)

To consider the latest Risk Management Monitoring report by the Head of Finance and Audit.

9. Treasury Management Strategy and Indicators (Pages 81 - 102)

To consider a report by the Deputy Chief Executive Officer on the Treasury Management Policy and Indicators.

10. Internal Audit Progress Report (Pages 103 - 120)

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 to update the Committee on the progress being made on the delivery of the internal audit plan for 2021/22.

11. Review of Members Training and Development Programme (Pages 121 - 142)

To consider a report by the Head of Democratic Services on a review of Member training and development, and determination of the training programme for 2022/23.

12. Annual Report of the Audit and Governance Committee (Pages 143 - 154)

To consider the annual report by the Monitoring Officer on the work of the Audit and Governance Committee during 2021/22 and the proposed Work Programme for 2022/23.



P GRIMWOOD
Chief Executive Officer
Civic Offices
www.fareham.gov.uk
04 March 2022

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FAREHAM

BOROUGH COUNCIL

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

Date: Monday, 22 November 2021

Venue: Collingwood Room - Civic Offices

PRESENT:

Councillor Mrs T L Ellis (Chairman)

Councillors: G Fazackarley, G Kelly and S Dugan (deputising for S D Martin)

**Also
Present:**



1. APOLOGIES

Apologies of absence were received from Councillors S D Martin, T Davies, P Davies and N Gregory.

In the absence of both the Chairman and Vice-Chairman, Members of the Committee present appointed Councillor T L Ellis as Chairman for this meeting.

2. MINUTES

RESOLVED that the Minutes from the Audit and Governance Committee held on the 27 September 2021 be signed and agreed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

The Chairman made the following announcement regarding the Internal Audit Partnership –

In March 2017 the Committee approved the development of a partnership with Portsmouth City Council for the provision of the internal audit work.

The Committee delegated authority to the Head of Finance and Audit, in consultation with the Section 151 Officer, to enter into arrangements as necessary to develop this partnership.

A review of the partnership performance is carried out every year and has proved very successful. It costs between £50,000 and £60,000 a year and has achieved savings on previous years.

The contract for the partnership is now nearing the end of the first 5 years of the contract. Officers have reviewed the arrangements, in consultation with the partners, and both parties are happy to continue with this arrangement for a further 5 years as allowable under the contract terms.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest made at the meeting.

5. DEPUTATIONS

There were no deputations received at this meeting.

6. TREASURY MANAGEMENT STRATEGY AND INDICATORS

The Committee received a report by the Deputy Chief Executive Officer on the Council's Treasury Management Strategy and Indicators. The report provided the Committee an opportunity to scrutinise the implementation of the strategy which was approved by Council on the 25 February 2021.

Members referred to paragraph 78 of the strategy and asked that refresher treasury management training for Members be carried out in the near future to support Members of the Committee in their scrutiny role.

RESOLVED that the Audit and Governance Committee: -

- (a) reviewed the contents of the report;
- (b) asked that refresher treasury management training for Members be carried out in the near future; and
- (c) provided comments in terms of the effectiveness of the treasury management strategy.

7. RISK MANAGEMENT MONITORING REPORTS

The Committee received a report by the Head of Finance and Audit containing the latest evidence compiled to demonstrate compliance with the Council's Risk Management Policy. It was explained to the Committee that this was usually a 6-monthly report which had been put on-hold for 18 months during the pandemic response. It was also explained that the next report will be different and will contain a reduced amount of detail about the Council's risks and focus more on the assurances gained from the Risk Management discussions. Members were reassured that the process itself will not change, just the way in which it is presented to the Committee.

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

8. PREVENTION OF FACILITATION OF TAX EVASION

The Committee received a report by the Deputy Chief Executive Officer on the Prevention of Facilitation of Tax Evasion. The Prevention of the Facilitation of Tax Evasion Policy 2021 has been developed as part of an action plan to help demonstrate the Council's commitment to prevent the facilitation of tax evasion.

RESOLVED that the Audit and Governance Committee approve and endorse the Prevention of the Facilitation of Tax Evasion Policy, attached as Appendix A to the report.

9. INTERNAL AUDIT PROGRESS REPORT

The Committee received the latest Internal Audit Progress Report from the Head of Finance and Audit. Mark Somerset, Audit Manager from the internal audit partnership at Portsmouth City Council addressed the Committee to advise that the internal audit work is in a strong position. He explained that many of the operational issues which had been causing delays with the audit plan are now resolved and he is confident that the work would be completed for 2021/22 on time.

The Chairman asked, in relation to the Accounts Payable audit, if the new process for authorising invoices had strengthened the assurance opinion. The Head of Finance and Audit explained that the new process, which had been introduced during the Covid-19 Pandemic allowing authorisations to be made via email, does strengthen assurances due to the written audit trail and the

removal of signatures in the process. Members of the Committee asked that it be noted as a positive outcome of the new ways of working.

RESOLVED that the Audit and Governance Committee noted the progress and findings arising from Internal Audit work.

10. ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

The Committee received a report by the Deputy Chief Executive Officer on the arrangements for appointment of the next external auditors. It was explained to the Committee that there is a lot of work being carried out nationally to strengthen the external auditor market and arrangements. However, this is true for all the options available to appoint the next external auditors and opting into the Public Sector Audit Appointments (PSAA) scheme is still the preferred approach to achieve an appointment in terms of both cost and quality of service.

Members of the Committee enquired about the fees for variations which had caused concern in the past. The Deputy Chief Executive Officer reassured Members that this is part of ongoing discussions with PSAA and officers will continue to monitor the scale fees and what this includes closely.

RESOLVED that the Audit and Governance Committee recommend to Council that the Council accepts Public Sector Audit Appointments (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2023.

11. REVIEW OF WORK PROGRAMME

The Committee received a report by the Monitoring Officer seeking approval of the Committees Work Programme for the rest of the municipal year.

The Head of Finance and Audit highlighted to Members that an additional meeting on the 17 January 2022 had been scheduled. The reason for this is to allow the Committee to consider the External Audit Results report sooner and to accommodate other reports that have been delayed or added to the schedule.

RESOLVED that the Audit and Governance Committee approved the work programme for the rest of the municipal year, as shown in Appendix A to the report.

(The meeting started at 6.00 pm
and ended at 7.13 pm).

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 14 March 2022

Report of: Deputy Chief Executive Officer

Subject: EXTERNAL AUDIT - AUDIT RESULTS REPORT

SUMMARY

The Committee is asked to consider the External Auditor's Audit Results Report (Appendix A), summarising the findings from the audit of the 2020/21 accounts.

Having considered the findings of the External Auditor and seen the revised Statement of Accounts, a "letter of representation" will be sent from the Council's Section 151 Officer (Deputy Chief Executive Officer) to the External Auditor. This will enable the External Auditor to issue their audit report on the Council's financial statements. The Statement of Accounts can then be published.

RECOMMENDATION

It is RECOMMENDED that: -

- (a) the Audit and Governance Committee notes the contents of the Audit Results Report (Appendix A); and
- (b) the Deputy Chief Executive Officer and the Chairman of the Audit and Governance Committee sign the Letter of Representation, subject to the external auditors completing their outstanding procedures and any further amendments to the accounts, or the Letter of Representation, being agreed by the Deputy Chief Executive Officer in consultation with the Chairman of the Audit and Governance Committee.

Background and Reference Papers: None

Enquiries: For further information on this report please contact Andrew Wannell.
(Ext 4620)

Appendix A

Fareham Borough
Council
Audit results report
Year ended 31 March 2021

February 2022



28 February 2022

Dear Audit and Governance Committee Members

2020/21 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit and Governance Committee. We will update the Audit and Governance Committee at its meeting scheduled for 14 March 2022 on further progress to that date and explain the remaining steps, and timeline, to issue of our final opinion.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Fareham Borough Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 14 March 2022.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

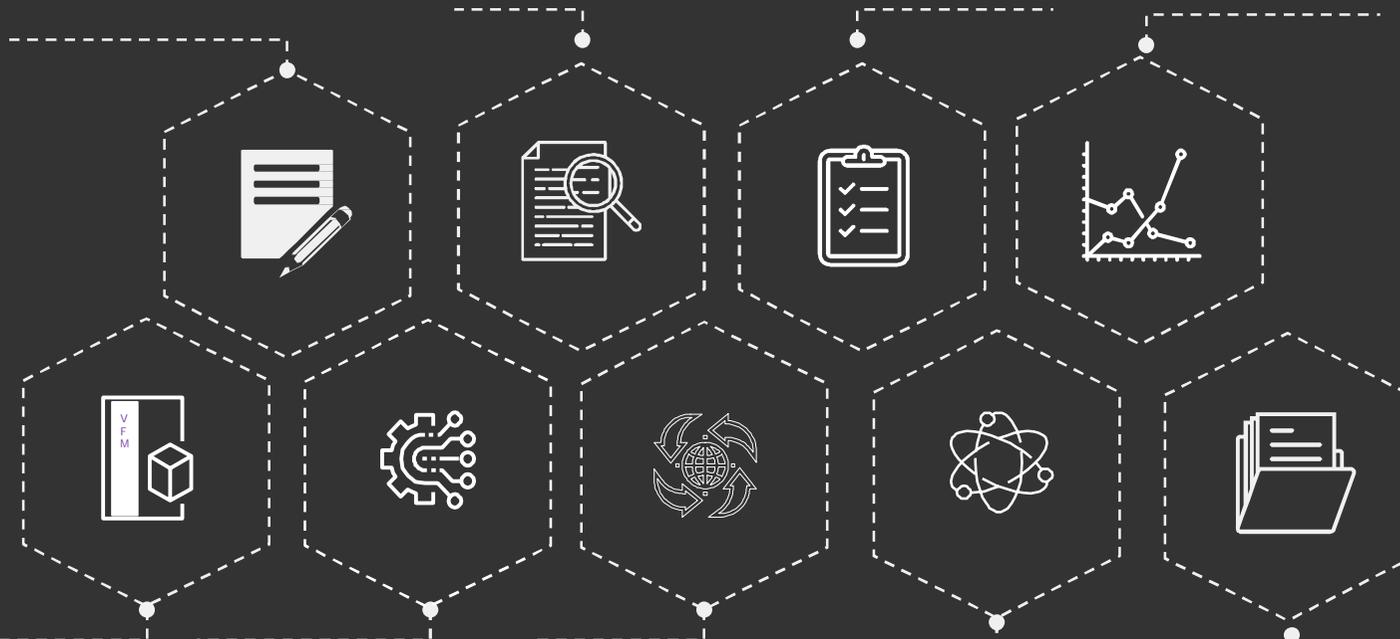
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09 Appendices

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

Executive Summary

Scope update

In our audit planning report presented to the Audit and Governance Committee meeting on 12 July 2021, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following updates:

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 2% of gross expenditure on provision of services, adjusted for any unusual items.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We report all uncorrected misstatements relating to the primary statements greater than 5% of planning materiality.
Planning	£1.313 million	£0.985m	£0.066m
Final	£1.319 million	£0.989m	£0.066m

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Auditing accounting estimates

A revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. We have considered the following areas as higher inherent risk estimates in our approach:

- The revaluation of land and buildings classified as Property, Plant and Equipment (PPE) and Investment Property (IP).
- Pension liability and asset valuation.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE):

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

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

Executive Summary

Status of the audit

We have substantially completed our audit of Fareham Borough Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Property, Plant & Equipment valuations testing – our work on assets valued using Existing Use Value (EUV) is largely complete with 1 query relating to bird mitigation costs outstanding on a Daedalus asset, this was returned to the valuer on 28th February 2022. For assets valued at Depreciated Replacement Cost we have completed testing on 2 of 8 assets, and we received responses from our queries from the external valuer on 28th February 2022. We are currently reviewing these and differences have been identified in the areas used for the valuations. We are currently quantifying these differences and will give a verbal update at the committee.
- Update of our subsequent events procedures to the date of our opinion
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the accounts which could influence our final audit opinion.

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Executive Summary

Status of the audit – Value for Money

In the audit planning report presented to the Audit and Governance Committee, we reported that our value for money (VFM) risk assessment was not fully complete but that, at the time, we had not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have since completed our risk assessment and have also revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report.

Audit differences

There are no unadjusted differences as at 28th February 2022

There have been 4 material differences identified which have been adjusted for, these are:

- A reclassification of a property from investment property to other land and building (gross impact is £1.3m, impact on OCI £1m)
- Increase to pensions asset (£2.5m)
- Reclassification of principal Covid-19 grants from Creditors (£1.9m) to Income (£2.8m) and Expenditure (£2.8m)/ Receipts in advance (£1.9m)
- Reclassification of an amount in a cash control account from Creditors to Cash (£959k)
- Overstatement of the NNDR Appeals Provision of which Fareham's share is £989k.

A small number of other amendments have also been made to disclosures appearing in the financial statements as a result of our work to date.

Other reporting issues

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

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (OSCAR) and update the guidance that is available for preparers. We do not anticipate having any issues to report as the Authority is expected to be below the threshold set by the NAO for full procedures.

We have no other matters to report.



Executive Summary

Objections

We have not received any objections to the 2020/21 accounts from members of the public.

Areas of audit focus

In our audit planning report we identified a number of key areas of focus for our audit of the financial report of Fareham Borough Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

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Fraud Risk	Findings & Conclusions
Misstatements due to fraud or error	We have not identified any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	<p>Our sample testing of additions to Property Plant and Equipment (PPE):</p> <ul style="list-style-type: none"> • Found costs had been correctly classified as capital and included at the correct value. • Did not identify any revenue items that were incorrectly classified as capital. <p>Our review of judgements taken by management found them to be reasonable.</p>
Significant Risk	Findings & Conclusions
Valuation of Investment Properties	Our work in this area is complete. We identified one error where Westbury Manor was valued at Depreciated Replacement Cost and incorrectly held as an investment property, therefore this has been corrected by reclassifying as other land and buildings.

Executive Summary

Areas of audit focus (continued)

Area of audit focus / Inherent risk	Findings & Conclusions
Valuation of Land and Buildings	<p>Our work in this area remains in progress as at 28 February 2022. Further details are set out in Section 2 of this report.</p> <ul style="list-style-type: none"> • Assets valued using Existing Use Value (EUV) is largely complete with no errors identified, we have one query outstanding on a Daedalus asset. • For assets valued on a Depreciated Replacement Cost basis, the final queries are being worked through following receipt from the valuer on 28th February 2022.
Pension Liability Valuation (Inherent risk)	Our planned work in this area is complete. One adjustment of £2.5m to increase the pensions asset has been required as a result of our work. Further details are set out in Section 2 of this report.
NNDR Appeals Provision (inherent risk)	The work on this area is complete with one error identified which reduces the NNDR appeals Provision by £989k. This was due to an incorrect header on the analyse local report which led to a provision incorrectly being made against 21/22 and 22/23 income.
Going Concern (Area of audit focus)	We have reviewed management's assessment and cashflow forecast. We agree that the Council's accounts should be prepared on the going concern basis. We are satisfied that the disclosures relating to going concern are adequate and sufficiently discloses material events and conditions in relation to the going concern assumption of the Council.
Accounting for Covid-19 related government grants (Inherent risk)	<p>Based on our work performed we were not satisfied with the accounting treatment adopted for Covid-19 related government grants as the draft accounts held a number of the principal Covid-19 grants within creditors rather than income and expenditure. Where the Council acts as principal, these grants should be processed through the CIES as the Council has the control over the allocation of the funding to the beneficiaries of these grants.</p> <p>We have agreed the required adjustment with management. Further details are set out in Section 2 of this report.</p>



Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

We have not identified any significant control deficiencies as part of the audit process.

Independence

Please refer to Section 08 for our update on Independence. We note that there are no matters to draw to the attention of the Audit Committee.



02 Areas of Audit Focus



Areas of Audit Focus

Fraud risks

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

We identify and respond to this fraud risk on every audit engagement.

What did we do and what judgements did we focus on?

we:

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

We also performed mandatory procedures which we are required to undertake regardless of specifically identified fraud risks. We:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk relating to the revaluation of PPE and IP assets and pension liability and asset valuation.
- Evaluated the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work.

Having re-evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We continued to conclude that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' were required. See the next page for further details.

What are our findings & conclusions?

Based on our work completed we have not identified any:

- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied; or
- any other transactions during our audit which appear unusual or outside the Council's normal course of business.



Fraud risks (continued)

Inappropriate capitalisation of revenue expenditure

What is the risk and potential impact on the financial statements?

As identified in ISA 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 would otherwise appear to be operating effectively.

We determined that the way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements.

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

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

What did we do and what judgements did we focus on?

We:

- Tested PPE additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. There were no significant investment property additions in the year.

In testing the capitalised expenditure we focused on the following judgements:

- We sought to gain assurance the capitalised spend clearly enhanced or extended the useful life of assets rather than simply repairing or maintaining the assets on which it was incurred.
- We sought to gain comfort that any development or other related costs that were capitalised were reasonable to capitalise i.e. the costs incurred were directly attributable to bringing the asset into operational use.



Areas of Audit Focus

Fraud risks (continued)

What are our findings & conclusions?

Our sample testing of additions:

- Found costs had been correctly classified as capital and included at the correct value.
- Did not identify any revenue items that were incorrectly classified as capital.

Our review of judgements taken by management found that:

- Where relevant the capitalised spend clearly enhanced or extended the useful life of assets rather than simply repairing or maintaining the assets on which it was incurred.
- Other capitalised costs were directly attributable to bringing assets into operational use.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.



Significant risk

Valuations of Investment Property (IP)

What is the risk and potential impact on the financial statements?

The fair value of Investment Properties represent a significant balance in the Authority's accounts and are subject to valuation changes and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balance recorded in the balance sheet. 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.

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end.

Since late March 2020 in the UK, Covid-19 had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation and this continued to be a factor for 2020/21. Although government's measures have gradually relaxed, the long term effects remains uncertain. Rental income may not be at levels pre-pandemic even after market recovery and there could still be increased levels of tenant defaults or negotiations for rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we therefore raised a significant risk in relation to these type of valuations.



Areas of Audit Focus

Significant risk

What did we do and what judgements did we focus on?

- Considered 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 tested key asset information used by the valuer in performing its valuation and challenged the key assumptions used by the valuer and also ensure that all IP has been revalued in-year.
- Tested accounting entries have been correctly processed in the financial statements.
- Ensured that appropriate disclosure had been made in the accounts concerning the possibility of 'material uncertainty'.
- Commissioned EY Real Estates (EYRE), our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets. Sampling focussed on:
 - Assets more susceptible to the market volatility brought about by C-19. We consider this relates to investment property assets as these are carried at fair value
 - Unexpected fluctuations in valuation year-on-year

What are our findings & conclusions?

Fareham has a balance of £61.6m investment properties. We selected £52m (19 assets) to test based on a judgemental sampling approach. We have identified these based on the type of property and our expectation of the movement. We have then reviewed the population to ensure that all asset types have been sample tested. We engaged our specialists to review 8 of these assets. These were picked by reviewing each material asset with a member of our specialist team to understand which items may not have moved in line with our expectations.

All properties reviewed by our specialists fell with our expected range. Our local testing of the remainder of the assets used the assurances from our specialists where appropriate, and our work is complete.

One misstatement has been identified and has been adjusted for which is the misclassification of an item of other land and building as an investment property. This had a value of £1.3m and caused the in year revaluation increase of £1m to be reclassified as OCI.



Areas of Audit Focus

Area of audit focus

Valuation of operational Land and Buildings

What is the risk?

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

What did we do and what judgements did we focus on?

- Our work in this complex area is still ongoing. To date we:
- Considered 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 tested key asset information used by the valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used by the valuer.
 - Tested accounting entries have been correctly processed in the financial statements.
 - Considered 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.
 - Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated.
 - Considered changes to useful economic lives as a result of the most recent valuation.

What are our findings & conclusions?

FBC has a other land and building balance of £89m, with £87m revalued in 20/21.

£51m of this is based on an Existing Use Value (EUV) valuation (including Garages held as OLB). We have judgementally selected £39m of this for testing, selecting assets based on size as well as anything that has not moved in line with our expectations. We have then ensured that we have tested at least one of each type of asset. The work on assets valued at EUV is almost complete with one query outstanding.

The work on Depreciated Replacement Cost assets is underway, with a small number of queries outstanding as at the date of this report. £36m relates to DRC valuations and we have selected £26m for testing based on a similar judgemental sample as set out above. Errors were found in community centre revaluations in the prior year and therefore we have selected a higher proportion of these assets for 20/21.

We have performed one final review of all asset types to ensure we are reviewing all assets with a movement above our materiality level. This allows us to reduce the risk of misstatement to a sufficiently low level.



Areas of Audit Focus

Area of audit focus

Pension Liability Valuation

What is the risk?

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 2021 this totalled £71.56m.

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..

What did we do and what judgements did we focus on?

We:

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Fareham Borough Council.
- Assessed the work of the Pension Fund actuary (Aon) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office (NAO) for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our findings & conclusions?

- We obtained assurances from the auditors of Hampshire County Council Pension Fund that the information supplied to the actuary in relation to Fareham Borough Council was accurate and complete. However, as confirmed by the assurances received from the Pension Fund auditor, an adjustment of £2.5m was required as a result of our work to reflect the Council's share of the difference between the estimated value of Pension Fund assets submitted to Aon and the final audited value of Pension Fund assets in its 2020/21 financial statements.
- We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.

Furthermore, the new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, were able to access the detailed models of the actuaries in order to evidence these requirements. We therefore modified our planned approach and undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. The results of this exercise showed the actuarial estimate to be accurate within a reasonable range.



Areas of Audit Focus

Area of audit focus

NNDR Appeals Provision

What is the risk?

The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements.

In addition, in prior years we have identified errors above our audit differences threshold.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the assumptions to appeals made to the 2005 and 2010 ratings lists;
- The reasonableness of the assumptions made to any appeals lodged against the 2017 ratings list, and the Council's assumptions for appeals as yet unlogged.

What did we do?

- Reviewed the calculation of the provision for accuracy;
- Considered the work performed by the Council expert, Analyse Local and understood the assumptions used in their calculation;
- Ensured the Council has amended the provision appropriately for any Business Rate reliefs awarded;
- Performed 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; and
- Ensured that the Council has considered local appeal rates and outstanding appeals when calculating its provision for business rates appeals rather than using a national figure of 4.7% as this is not necessarily reflective of the appeals locally

What are our conclusions?

We have reviewed the calculation of the provision and confirmed that the calculation initially used the Analyse Local threat report to estimate of outstanding appeals. There was an incorrectly labelled column on this report which included the predicted losses from 21/22 and 22/23. This caused the provisions to be overstated by £2.4m, with Fareham's share amounting to a £989k overstatement.

We reviewed the assumptions, methods and models used by management's specialist. We identified no issues other than the documentation issue noted above.

Our post year-end review of appeals settled identified no issues.



Areas of Audit Focus

Area of audit focus

Going Concern

What is the risk?

There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there is a need for the Council to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Council is also required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

What did we do and what judgements did we focus on?

We:

- Challenged management's identification of events or conditions impacting going concern.
- Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, in drawing our conclusions on going concern.
- Challenged the disclosure made in the accounts in respect of going concern
- Reviewed the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern including an assessment of any underlying need to borrow.

What are our findings & conclusions?

- Our review of management's continued use of the going concern assumption concludes it remains appropriate;
- We reviewed the proposed going concern disclosures for inclusion in the financial statements and proposed relatively minor updates which management made;
- In our view no significant uncertainty exists that may cast doubt on the Council's ability to continue as a going concern, which would be required to be disclosed.
- The key issues we reflected on for our assessment relate to a combination of the Council's liquidity and its level of General Fund reserves. Management's assessment demonstrates that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital.
- The accounts adequately and sufficiently discloses material events and conditions in relation to the going concern assumption of the Council and that no material uncertainties exist.



Areas of Audit Focus

Area of audit focus

Accounting for Covid-19 related government grants

What is the risk?

The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

What did we do and what judgements did we focus on?

We considered the Council's judgement on material grants received in relation to whether it is acting as:

- Agent, where it has determined that it is acting as an intermediary; or
- Principal, where the Council has determined that it is acting on its own behalf.

We sought to determine whether conditions were attached to the grant funding received and whether those conditions were met or not. Considering the outcome of the above we considered the appropriateness of the accounting treatment for the grants, in particular whether the grants were correctly classified, and whether associated disclosure were also accurate.

What are our findings & conclusions?

For those grants received where the Council is acting as an agent we would not expect these to be processed through the income and expenditure accounts but would expect to see the amounts received disclosed in the notes to the accounts. Where the Council acts as principal, these grants should be processed through the CIES as the Council has the control over the allocation of the funding to the beneficiaries of these grants.

Based on the work performed we were not satisfied with the accounting treatment adopted for Covid-19 related government grants as the draft accounts held a number of the principal Covid-19 grants within creditors rather than income and expenditure.. We have now agreed the final figures to be posted into the accounts (£2.8m to be adjusted within income and expenditure and associated classification of £1.9m between creditors and Receipts in advance.)



03 Audit Report



Audit Report

Draft audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAREHAM BOROUGH COUNCIL

Our opinion on the financial statements

Opinion

We have audited the financial statements of Fareham Borough Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement and the related notes 1 to 34, the Housing Revenue Account Income and Expenditure Statement, the movement on the Housing Revenue Account Statement, the notes to the Housing Revenue Account, and the Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Deputy Chief Executive officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive officer is responsible for the other information contained within the Statement of Accounts 2020/21.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is



Audit Report

Draft audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAREHAM BOROUGH COUNCIL

Our opinion on the financial statements

a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Deputy Chief Executive officer

As explained more fully in the Statement of Responsibilities set out on page 29, the Deputy Chief Executive officer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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



Audit Report

Draft audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAREHAM BOROUGH COUNCIL

Our opinion on the financial statements

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:

- the Local Government Act 1972;
- the Local Government Act 2003;
- the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020;
- the National Health Service Act 2006;
- the Local Audit and Accountability Act 2014; and
- the Accounts and Audit Regulations 2015.

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

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

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified the inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; assessed accounting estimates for evidence of management bias; and evaluated the business rationale for significant unusual transactions.

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



Audit Report

Draft audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAREHAM BOROUGH COUNCIL

Our opinion on the financial statements

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether Fareham Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Fareham Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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

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

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

Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements.

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

Use of our report

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



04 Audit Differences





Audit Differences

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

Summary of adjusted and uncorrected differences

There are no unadjusted differences as at 28 February 2022.

Other than minor misstatements in disclosures, we have identified the following misstatements as at 28 February which management have agreed to correct:

- Payables - £959k held as a creditor has been reclassified to cash as it was incorrectly moved to a cash control account due to timing differences.
- PPE - £1.3m reclassified from investment property to other land and building as per Section 2, this has also caused the reclassification of the revaluation increase impact of £1m from deficit on provision of services to OCI.
- IAS 19 - £2.5m adjustment to increase the asset value as per section 2.
- Covid 19 - £2.8m Principal grants moved from creditors to income and expenditure, £1.9m reclassified from creditors to receipts in advance, see section 2 for further detail.
- NNDR Appeals - £989k adjustment to reduce Fareham’s share of the NNDR Appeals provision



05

Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA Code of Practice on Local Authority Accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

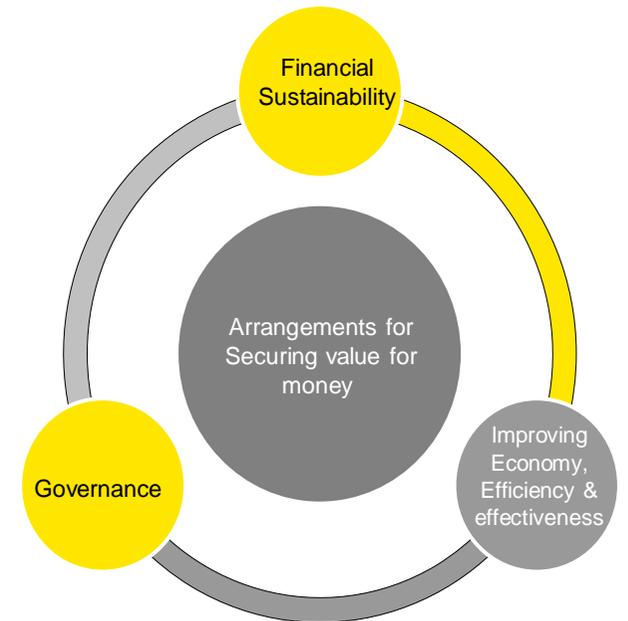
We have previously reported to the Committee the outcome of our preliminary assessment of the risk of significant weaknesses in the Council's VFM arrangements - that we had not identified any risks. We have revisited our risk assessment and have not identified any additional risks.

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Status of our VFM work

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report.





06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the NAO.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (OSCAR) and update the guidance that is available for preparers. We do not anticipate having any issues to report as the Authority is expected to be below the threshold set by the NAO for full procedures.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

No objections were received during the public inspection period.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations; and
- Consideration of laws and regulations.

We have no other matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial Controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



08

Independence

Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees that are relevant to the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

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

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	Final fee 2020/21	Planned fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee - Code work	£37,137	£37,137	£37,137
Value for money work - minimum additional fee expectation by PSAA for 2020/21 due to the new Code requirements.	£6,000	-	-
Impact of new accounting requirements of ISA 540 - minimum additional fee expectation by PSAA for 2020/21	£2,500	-	-
Scale fee rebasing (see Note 1)	£19,921	£19,921	£19,944
Risk based fee variations (see Note 1)	TBC	£10,382	
Total Fees	TBC	£67,440	£57,081

Note 1

- In 2019/20, and within our audit plan, we included a requested amendment to the scale fee in order to meet regulatory and compliance requirements. For 2019/20 we also submitted risk based fee variations to PSAA. PSAA have determined the submission for 2019/20, but did not provide confirmation whether the determination or any element was recurrent. Therefore, we have presented the determined variation as a single line of £19,944.

- For the purposes of this document we have continued to include our fee rebasing from the 'Planned Fee 2020/21'. We have also included variations for new Code and ISA requirements, based on the lower end of PSAA's communicated expected ranges. Following the conclusion of the audit we will be in a position to conclude on the risk based variations for the year, including the process to submit to PSAA. We will update management and the committee when we have clarity on the way forward and timescales for both elements.

Other communications

EY Transparency Report 2021

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

[EY UK 2021 Transparency Report | EY UK](#)



09 Appendices

Appendix A

Required communications with the Audit and Governance Committee

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

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Audit 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.	Audit planning report – dated June 2021	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report – dated June 2021	
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 – dated February 2022	

Appendix A

Our Reporting to you

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 related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Fareham Borough Council's ability to continue for the 12 months from the date of our 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 • Material misstatements corrected by management 	Audit results report – dated February 2022
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report – dated February 2022
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 • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit and Governance Committee responsibility. 	Audit results report – dated February 2022

Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • 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 	<p>Audit results report – dated February 2022</p>
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>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Plan – dated June 2021 and Audit results report – dated February 2022</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>We have received all expected confirmations.</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • 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>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	<p>Audit results report – dated February 2022</p>

Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report – dated February 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report – dated February 2022
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor’s report Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report – dated February 2022
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Plan – dated June 2021 and Audit results report – dated February 2022

Draft management representation letter

Management Rep Letter

This letter of representations is provided in connection with your audit of the financial statements of Fareham Borough Council ("the Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Fareham Borough Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. As at the date of our report, there are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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

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

Draft management representation letter

Management Rep Letter

- involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.
- C. Information Provided and Completeness of Information and Transactions
1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
 3. We have made available to you all minutes of the meetings of the Council and committees held through 2020/21 to the most recent meeting of the Audit and Governance Committee held on.....*[to be completed]*.
 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
 6. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
 7. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
 8. From the date of our last management representation letter at 20 November 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.
- D. Liabilities and Contingencies
1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
 2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
 3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 49 to the financial statements all guarantees that we have given to third parties.

Draft management representation letter

Management Rep Letter

E. Going Concern

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

F. Subsequent Events

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

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings classified as property, plant & equipment, investment property and valuation of pension liabilities and assets, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

Revaluation of land and buildings classified as Property, Plant and Equipment (PPE) and Investment Property (IP)

1. We confirm that the significant judgments made in performing the revaluation of land and buildings classified as PPE and IP have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in performing the revaluation of land and buildings classified as PPE and IP.

3. We confirm that the significant assumptions used in performing the revaluation of land and buildings classified as PPE and IP appropriately reflect our intent and ability to carry out the revaluation on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialized skills or expertise has been applied in undertaking the revaluation of land and buildings classified as PPE and IP.

6. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements, including due to the COVID-19 pandemic.

Pension Liability and Asset Valuation

7. We confirm that the significant judgments made in performing the pension liability and asset valuation have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

8. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in performing the pension liability and asset valuation.

Draft management representation letter

Management Rep Letter

9. We confirm that the significant assumptions used in performing the pension liability and asset valuation appropriately reflect our intent and ability to carry out the revaluation on behalf of the entity.

10. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

11. We confirm that appropriate specialized skills or expertise has been applied in undertaking the pension liability and asset valuation.

12. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements, including due to the COVID-19 pandemic.

Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Andrew Wannell, Deputy Chief Executive officer

Councillor Tom Davies, Chairman of the Audit and Governance Committee

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 14 March 2022

Report of: Head of Housing and Benefits

Subject: ANNUAL CERTIFICATION REPORT

SUMMARY

This report presents the findings from the Housing Benefit Subsidy Certification work carried out by External Auditors (KPMG LLP) in respect of 2020/21.

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 Audit and Governance Committee: -

- a) consider the findings of the Annual Certification Report 2020/21 submitted to the Department for Work and Pensions by the Council's external auditors; and
- b) comment on the findings as appropriate.

INTRODUCTION

1. Housing Benefit is a national social security benefit administered by local authorities on behalf of the Department for Work and Pensions (DWP). The DWP reimburse local authorities for the cost of administering Housing Benefit through a system of subsidy payments, based on the subsidy claims submitted to the DWP by the local authorities.
2. The DWP require appropriately qualified reporting accountants to audit the subsidy claim and issue to them a report about the financial and legal probity of each local authority's Housing Benefit Service.
3. The reporting accountant is required to perform specific tests determined by the DWP on a defined sample basis as set out in the Housing Benefit Assurance Process reporting framework.
4. Testing of cases is carried out on an initial sample of cases per benefit type across the entire caseload. More extensive testing is undertaken if the initial testing identifies errors in the calculation of benefit or as a result of errors that have been identified in the audit of previous years' claims.

2020/21 HOUSING BENEFIT SUBSIDY CLAIM

5. The amount of subsidy claimed by Fareham Borough Council for 2020/21 was £15,233,159. KPMG completed the assurance process detailed above and determined there were no exceptions or errors to report and the amount claimed was correct.

REPORTING ACCOUNTANT'S OBSERVATIONS

6. It was identified in the 2018/19 claim that there were some underpayments of benefit arising from the incorrect calculation of earned income. Given the nature of the error and the potential for overpaid benefit to arise, additional testing of Subsidy Cell 055 has been undertaken in each subsequent year. Testing of an additional random sample of 40 cases in Subsidy Cell 055 of the 2020/21 claim identified no further cases where the income had been incorrectly calculated.

SUMMARY OF TESTING

7. In accordance with the Housing Benefit Assurance Process, testing of an initial sample of cases was completed for all general expenditure cells (011, 055, 094, 225). It should be noted that not all expenditure is fully subsidised and therefore the total expenditure in these cells will not match the amount of subsidy claimed.

(a) Subsidy Cell 011 (Non-Housing Rent Account rent rebates expenditure) Value £636,091

Testing of claims within cell 011 found one claim with an incorrect application of a service charge cost. Additional testing of a further 40 cases with service charges was performed and no further issues were found. Appropriate amendments were made to the sub-cells within the claim form to account for

the error found however these changes did not affect the headline cell (cell 011) and therefore the amount of subsidy claimed was correct.

(b) Subsidy Cell 055 (Housing Rent Account rent rebates expenditure) Value £5,187,887

Testing of claims within cell 055 found no issues.

(c) Subsidy Cell 094 (Rent Allowances expenditure) Value £9,565,072

Testing of claims within cell 094 found no issues.

(d) Subsidy Cell 225 (Modified Schemes expenditure) Value £7,825

Testing of claims within cell 225 found no issues.

CONCLUSION

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

Background Papers:

Reporting accountant's report for the Housing Benefit Subsidy claim form MPF720A for the year ended 31 March 2021.

Reference Papers:

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

Enquiries:

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

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 14 March 2022

Report of: Head of Finance and Audit

Subject: RISK MANAGEMENT MONITORING REPORT

SUMMARY

In March 2017, the Audit and Governance Committee approved the 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 policy.

The Audit and Governance Committee's area of responsibility for Risk Management includes:

- a) to monitor the effective development and operation of risk management in the Council.*
- b) to monitor progress in addressing risk-related issues reported to committee*

RECOMMENDATION

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

INTRODUCTION

1. In March 2017, the Audit and Governance Committee approved the latest Risk Management Policy (See Appendix A) based around a set of principles rather than a formal framework of registers. Under the 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 discuss:
 - (a) what their top risks are and any new or changes in risks and opportunities that have occurred;
 - (b) actions that have been taken in the year to mitigate risks;
 - (c) incidents that have occurred and actions taken to manage the incident and prevent a repeat;
 - (d) risks and solutions shared with other services in the Council or discussed with Council experts in that subject.
2. The last progress report was compiled in October 2021. This report summarises the evidence gathered from the discussions which took place between November 2021 and January 2022. The last time this group of managers were interviewed was in November and December 2019 as the process had been on hold while managers concentrated on managing the risks and impacts associated with the Covid pandemic.

MANAGERS COVERED BY THIS REPORT

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

Managers Interviewed for the last report	Managers Interviewed for this report
Head of Building Control (JS)	Head of Asset Management (SF)
Head of Democratic Services (LU)	Head of Environmental Health (IR)
Head of Development Management (LS)	Head of Housing and Benefits (CN)
Head of Finance and Audit (EH)	Head of Planning Strategy & Economic Development (GW)
Head of Housing Delivery (RL) - Housing Strategy services	Daedalus Strategic Lead (SW)
Head of Street Scene (MB)	<u>Housing Property</u>
Welborne Strategic Lead (SW)	Head of Housing Delivery (RL)
Leisure and Community Manager (EW)	Property Manager (Housing) (SB)
Property Manager (IC)	<u>Coastal Partnership Managers</u>
<u>Corporate Services Managers</u>	Head of Coastal Partnership (LC)
Web and Social Media Manager (MP)	Business Development Manager (JR)
PR and Marketing Manager (JL)	<u>Legal Partnership Managers</u>

Managers Interviewed for the last report	Managers Interviewed for this report
Customer Service Manager (AR) <u>Human Resources Officers</u> HR Business Partner (TH) HR Business Partner (AG)	Head of Democratic Services (LU) Service Director (Solicitor to the Council) (RI) <u>ICT Managers</u> Technical Infrastructure Manager (AS) Development and Systems Support Manager (KW) <u>Corporate Services Managers</u> Policy, Research and Engagement Manager (RB)

STRUCTURE OF THE EVIDENCE GATHERED

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

RESULTS OF THE RISK MANAGEMENT DISCUSSIONS

5. The sections below provide evidence of effective risk management for the following services:
 - Asset Management
 - Environmental Health
 - Housing and Benefits
 - Planning Strategy and Economic Development
 - Solent Airport and Daedalus
 - Housing Property and Repairs
 - Coastal Partnership
 - Legal Services
 - ICT Services
 - Corporate Services (second part)

Asset Management

6. A discussion was held with the Head of Asset Management, Finance Business Partner and Head of Finance and Audit and appropriate examples of risk management activity were covered.

7. It was noted, however, that the manager had not been in the organisation for the full period that the interview was covering and did not lead on the Covid response for the service.
8. The discussion included the following risks:

COVID RISKS	Commercial Rents: Commercial Tenants unable/unwilling to pay income due to the Council. Commercial Rent (Coronavirus) Bill restrictions on action that can be taken to collect debts.	Appropriate Actions Taken
	Remote Working: Failure to maintain team cohesion when working remotely.	Appropriate Actions Taken
BUSINESS AS USUAL RISKS	EPC Regs: Failure, as a landlord, to meet the requirements of the Energy Performance Certificate Regulations.	Actions in Progress
	Investment Properties: Reduction in income from investment properties due to changes in the economic climate.	Actions in Progress
	Resources: Insufficient resources, due to staff vacancies and increasing requirements of the service, which may not maximise the effectiveness of the service.	Actions in Progress

9. There were no aspects arising from the discussion that indicates additional corporate involvement is needed to resolve the residual risks and actions arising.

Environmental Health

10. A discussion was held with the Head of Environmental Health, Assistant Finance Business Partner and Head of Finance and Audit and appropriate examples of risk management activity were covered. These included the following risks:

COVID RISKS	LRF: Failure to meet the Council's obligations as part of the Local Resilience Forum (LRF) in response to the changing situation throughout the Covid pandemic. This included the setup and organisation of various testing centres and responding to requests for help from other organisations and agencies such as the Police, Fire and NHS.	Appropriate Actions Taken
	Enforcement: Failure to enforce the requirements of the Coronavirus Act or overuse of new powers leading to loss of public confidence.	Appropriate Actions Taken
	Service Provision: Failure to provide continuity of services whilst ensuring both the public and staff are kept safe.	Appropriate Actions Taken
BUSINESS AS USUAL RISKS	Coastal Parking: Risk that implementation was poor, delayed or did not meet the expectations outlined in the business case.	Appropriate Actions Taken
	Loss of Key Staff: Risk of failure to recruit to vacant Environmental Health Officer and Corporate Health and Safety Manager posts.	Appropriate Actions Taken

	CCTV Review: Risk that the expected savings from the CCTV review will not be achieved due to additional expenditure incurred.	Appropriate Actions Taken
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11. There were no aspects arising from the discussion that indicates corporate involvement is needed to resolve the residual risks and actions arising.

Housing and Benefits

12. A discussion was held with the Head of Housing and Benefits, Finance Business Partner and Head of Finance and Audit and appropriate examples of risk management activity were covered. These included the following risks:

COVID RISKS	Rough Sleepers: Risk of public perception that we were failing to accommodate everyone under the Everyone In Initiative from Central Government, meaning every Rough Sleeper (current and anyone new presenting) needed to go into secure accommodation.	Appropriate Actions Taken
	Benefits: Failure to cope with increased, more complicated demand for housing benefit as people were furloughed and experienced changes in personal circumstances.	Appropriate Actions Taken
	Test and Trace: Failure to meet the standards and timescales required for processing and paying Test and Trace and self-isolation grants.	Appropriate Actions Taken
BUSINESS AS USUAL RISKS	Christmas Day Fire: Incident management and strengthening prevention measures in relation to a fire in a Council House.	Appropriate Actions Taken
	Homelessness Funding: Social Inclusion work and initiatives for homelessness will not be adequately resourced (reduction in funding from the Government and/or Hampshire County Council).	Actions in Progress
	External Audit: External Auditors withdrawal from contract to carry out Housing Subsidy audit.	Actions in Progress

13. There were no aspects arising from the discussion that indicates corporate involvement is needed to resolve the residual risks and actions arising.

Planning Strategy and Economic Development

14. A discussion was held with the Head of Audit and Finance, Head of Planning, Strategy and Economic Development and the Finance Business Partner and appropriate examples of risk management activity were covered. These included the following risks:

COVID RISKS	Public Consultations: Failure to keep the public safe during public consultations.	Appropriate Actions Taken
	Mental Well-being of Team: Health of team members suffers during the restrictions. Also potential impact of not taking sufficient annual leave / backlog of leave to be taken.	Appropriate Actions Taken
BUSINESS AS USUAL RISKS	Local Plan: The latest Local Plan examination hearing is scheduled for March 2022. As always there is an inherent risk of the Plan being found to be unsound.	Actions in Progress
	Housing Supply: Risk that FBC are unable to meet the 5-year housing supply targets. Our new target is 541 new homes per year and generally we deliver 300 per annum. If the Local Plan is found sound, we have sufficient housing sites we can approve for development.	Actions in Progress

15. There was one area arising from the discussion that indicated corporate involvement may be needed to resolve the residual risks. Actions have now been agreed with senior managers.

Solent Airport and Daedalus

16. A discussion was held with the Daedalus Strategic Lead, Finance Business Partner and Head of Finance and Audit and appropriate examples of risk management activity were covered. It was noted, however, that the manager had not been in the current post for the full period that the interview was covering.
17. Discussions included the following risks:

BUSINESS AS USUAL RISKS	Taxiways: Failure to maintain taxiways in a way that protects the Council's income stream.	Actions in Progress
	Birds: Risk that development of the site is delayed due to failure to comply with Local Plan policy and agreed sub-regional Solent Wader and Brent Geese strategy regarding bird mitigation.	Actions in Progress
	Daedalus Common: Failure to open the Common in the timescales expected by residents.	Actions in Progress
	Streetscene Facility: Failure to provide a facility for the Streetscene team to operate from to help provide cost-efficient maintenance of the site.	Actions in Progress
	CAA Licence: Failure by the airport operator to maintain standards and meet the requirements of the Civil Air Authority Licence required to run an airport. Also, financial risk of any issues highlighted in the CAA inspection.	Appropriate Actions Taken

18. There were no aspects arising from the discussion that indicates additional corporate involvement is needed to resolve the residual risks and actions arising.

19. However, it was noted that considerable work had been carried out at a corporate level to strengthen the management of the risks arising from the vision for Daedalus. These include:

- Establishment of the Daedalus Scrutiny Panel.
- Establishment of the Daedalus Officer Board
- Appointment of a dedicated senior resource in the form of the Head of Strategic Sites
- Development of a financial strategy to guide future investment in the site

Housing Property and Repairs

20. A discussion was held with the Head of Housing Delivery Property Manager, Finance Business Partner and Senior Audit and Fraud Analyst and appropriate examples of risk management activity were covered. These included the following risks:

COVID RISKS	Maintaining workforce: Failure to maintain adequate workforce during the lockdown restrictions and pingdemics requiring vulnerable operatives, or operatives receiving notifications, to isolate.	Appropriate Actions Taken
BUSINESS AS USUAL RISKS	Disrepair Claims: Managing risks associated with the new emerging disrepair claims coming on the back of PPI claims, a shift to effectively chase councils on behalf of tenants, when they feel the Council haven't adequately dealt with disrepair.	Actions in Progress
	Housing System: Risk that the new housing system project isn't delivered on time, to budget and doesn't meet the service's needs.	Actions in Progress
	Green Housing: Failure to comply with the 'Green Agenda' for, housing stock over the next 2 to 3 years and embedding it throughout decision making.	Actions in Progress
	Cost increase: Risk that budgets are insufficient due to the impact of rising costs of material and labour post Brexit and Covid.	Appropriate Actions Taken
	Maintenance of non-dwelling assets: Failure to ensure that the maintenance requirements of the non-dwelling assets (such as estates roads) is known and built into a planned maintenance programme.	Actions in Progress

21. There were no aspects arising from the discussion that indicates corporate involvement is needed to resolve the residual risks and actions arising.

Coastal Partnership

22. A discussion was held with the Head of Coastal Partnership, Coastal Partner's Business Development Manager, Finance Business Partner, Head of Finance and Audit and the Finance Apprentice (audit). Appropriate examples of risk management activity were covered. These included the following risks:

COVID RISKS	Service Provision: Risk that no longer able to provide all services including 24/7 emergency response due to Covid restrictions and employees contracting the virus.	Appropriate Actions Taken
	Team Mental Health and Cohesion: Wellbeing of staff deteriorates during Covid period due to moving from a highly interactive and dynamic team to remote working with no physical interactions and extra home life responsibilities.	Appropriate Actions Taken
	Staff Safety: Failure to keep employees Covid-safe when out on site and when coming into the partnership offices.	Appropriate Actions Taken
BUSINESS AS USUAL RISKS	Fareham Quay Wall: Incident management of failure of the Fareham Quay wall.	Actions in Progress
	Hook Lake: Failure to take/fund the opportunity to use the site to create salt marsh which will offset sea defences pressures on other areas of the Solent.	Actions in Progress
	Cost increase: Risk that budgets are insufficient due to the significant cost increase in construction materials arising from Brexit and Covid.	Actions in Progress

23. There were no aspects arising from the discussion that indicates corporate involvement is needed to resolve the residual risks and actions arising.

Legal Services

24. A discussion was held with the Service Director (Solicitor to the Council), Head of Democratic Services, Finance Business Partner and Head of Finance and Audit and appropriate examples of risk management activity were covered. These included the following risks:

COVID RISKS	Coronavirus Act: Failure to ensure the Council was compliant with the ever-changing requirements of the Coronavirus Act 2020 and subsequent amendments. This included how emergency powers could be used to maintain effective decision making.	Appropriate Actions Taken
	Service Provision: Risk of poor communication and advice due to legal officers remote working and no physical presence within the Civic Offices.	Appropriate Actions Taken
BUSINESS AS USUAL RISKS	Task Completion: Risk that all the tasks required from the partnership are not completed on time. Particular risks that future work is not known and so resources may not be available when needed.	Appropriate Actions Taken
	Legal advice not sought on time: Risk that FBC employees	Actions in Progress

	don't pull in the legal experts when needed or do not give them sufficient time to consider an issue and respond, especially when preparing report for the Executive.	
	Judicial Review: Incident management of defending legal position during a planning challenge against the Council.	Appropriate Actions Taken

25. There were no aspects arising from the discussion that indicates corporate involvement is needed to resolve the residual risks and actions arising.

ICT Services

26. A discussion was held with the Development and Systems Support Manager, Technical Infrastructure Manager, Finance Business Partner and Head of Finance and Audit and appropriate examples of risk management activity were covered. These included the following risks:

COVID RISKS	Home Working IT: Risk that services were not able to function during Covid and lockdown due to inadequate equipment and other facilities including hardware, telephony, work platforms and conference software.	Appropriate Actions Taken
	Grants Spreadsheet: Risk that business grants team were not able to process grants at the speed needed due to problems with shared spreadsheets.	Appropriate Actions Taken
BUSINESS AS USUAL RISKS	New System Implementation: Delays in implementation of major new systems results in increased costs to the Council.	Actions in Progress
	New Storage Platforms: Document migration projects not completed within the required timescales or result in negative user feedback.	Actions in Progress
	Hybrid Workforce: Project risks that equipment, policies and contracts are insufficient to meets the organisation's expectations as we move to the new ways of working.	Actions in Progress

27. There was one area arising from the discussion that indicated corporate involvement may be needed to resolve the residual risks. Actions have now been agreed with senior managers.

Corporate Services (Policy and Engagement)

28. A discussion was held with the Policy, Research and Engagement Manager, Finance Business Partner and the Audit and Fraud Analyst and appropriate examples of risk management activity were covered. These included the following risks:

COVID RISKS	Consultations: Failure to adequately consult with the public due to Covid restrictions.	Appropriate Actions Taken
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BUSINESS AS USUAL RISKS	Corporate Strategy: Failure to adequately consult on the new Corporate Strategy with residents in the Borough and those delivering services.	Appropriate Actions Taken
	Carbon Footprint: Failure to manage the feasibility studies needed for the decarbonisation of the Civic Offices and the Depot to ensure that deadlines can be met for government funding bids.	Actions in Progress
	Equality: Failure to comply with the requirements of the Equality Act 2010 in relation to the updating and publishing of the Equality Policy objectives on the Council's website.	Actions in Progress
	Opportunity Plan: Failure to adequately manage the budget assigned for the Opportunity Plan.	Appropriate Actions Taken

29. There were no aspects arising from the discussion that indicates corporate involvement is needed to resolve the residual risks and actions arising.

APPENDICES

Appendix A: FBC Risk Management Policy

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)

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:

- Their perceptions of their current top risks
- 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: 14 March 2022

Report of: Deputy Chief Executive Officer

Subject: TREASURY MANAGEMENT STRATEGY AND INDICATORS

SUMMARY

Regulations require the Council to prepare and formally approve an annual Treasury Management Strategy. The document for 2022/23, attached as Appendix A, was endorsed by the Executive on 7 February 2022 and submitted to Full Council for approval on 25 February 2022.

CIPFA published revised versions of its Treasury Management Code of Practice and the Prudential Code in late December 2021. Due to the late publications, CIPFA recognises that changes may not be fully implemented until 2023/24 due to the lead-in time to produce the strategy. Therefore, this strategy is based on the 2017 version of both Codes.

There are no significant changes to this year's Strategy, but areas of note are:

- In the past 12 months, the Council's investment balance has ranged between £16 million and £25 million and similar levels are expected to be maintained in the forthcoming year (paragraph 7).
- The majority of the Council's investments is expected to be invested in short-term unsecured bank deposits and money market funds with approximately £16 million available for longer-term investment (paragraph 10).
- Recognising the Council's commitment to climate change mitigation, a new Environmental, Social and Governance (ESG) Policy identifying investment considerations has been added (paragraph 27).
- Borrowing levels are expected to increase to a projected £72.7 million at the end of 2022/23 to fund the capital programme (paragraph 29).
- Public Works Loan Board (PWLB) loans are no longer available to local authorities planning to buy investment assets primarily for yield (paragraph 37).
- The economic and interest rate forecast by the Council's treasury advisors has been updated as at December 2021 (paragraph 51 and Annex 1).

The Audit and Governance Committee's areas of responsibility for Treasury Management is to ensure effective scrutiny of 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 2022/23, attached as Appendix A to this report.

Appendices: Appendix A: Treasury Management Strategy and Investment Strategy 2022/23

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)

Template for Treasury Management Strategy and Investment Strategy 2022/23 provided by Arlingclose (the Council's current Treasury Advisers)

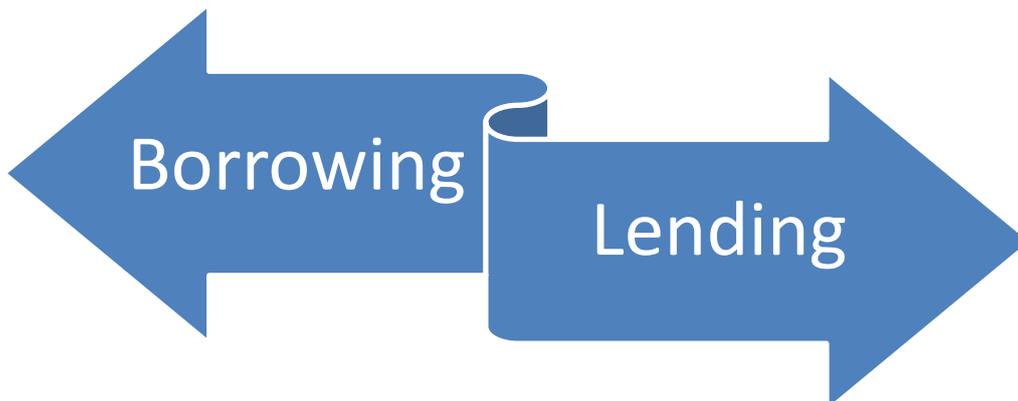
Enquiries:

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

FAREHAM

BOROUGH COUNCIL

TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY 2022/23



INTRODUCTION

WHAT IS TREASURY MANAGEMENT?

1. Treasury Management is defined as:

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

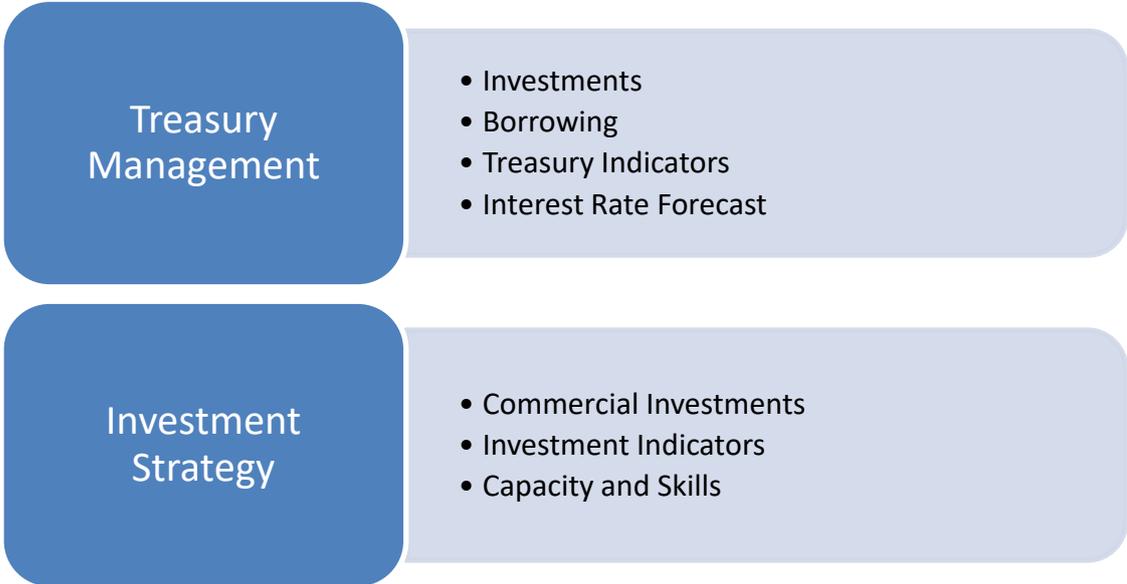
the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

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

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

CONTENT OF THE TREASURY MANAGEMENT AND INVESTMENT STRATEGIES

3. These strategies set out the expected approach to treasury management and investment activities for 2022/23. It covers two main areas:



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

REPORTING REQUIREMENTS

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



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

TREASURY MANAGEMENT STRATEGY

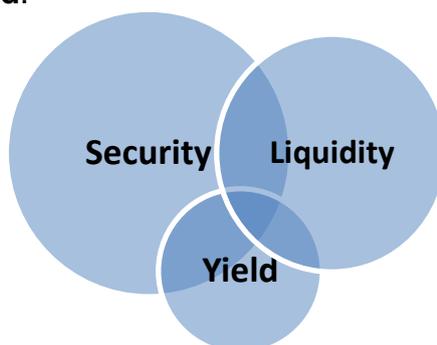
INVESTMENTS

Current Portfolio Position

7. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £16 million and £25 million and similar levels are expected to be maintained in the forthcoming year.

Treasury Investment Strategy

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



9. The Council's objective when investing money is to strike an appropriate balance between **risk and return**, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
10. Given the increasing risk and very low returns from short-term unsecured bank investments, the Council has diversified **into more secure and/or higher yielding asset classes**. This is the case for the estimated £16 million that is available for longer-term investment. The Council's surplus cash remains invested in short-term unsecured bank deposits and money market funds. This diversification represents a continuation of the strategy adopted in 2018/19.
11. Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's **business model** for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved Counterparties

12. The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown.

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

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

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

Operational Bank Accounts

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

Risk Assessment and Credit Ratings

18. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
19. 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

20. 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.
21. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
22. The following **internal measures** are also in place:
 - Investment and borrowing decisions formally recorded and endorsed using a Counterparty Decision Document.
 - Monthly officer reviews of the investment and borrowing portfolio and quarterly reviews with the Chief Executive Officer.

Investment Limits

23. The Council's revenue reserves available to cover investment losses are forecast to be £5 million on 31st March 2022. In order to minimise risk, in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be **£5 million**. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
24. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as in the table below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

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

Liquidity Management

- 25. 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.
- 26. The Council will spread its liquid cash over at least **four providers** (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Environmental, Social and Governance (ESG) Policy

- 27. The Council will seek to move towards investments that improve the environment, bring wider social benefits, and are with organisations with good governance.
- 28. The Council will give weight to the environmental, social and governance elements of credit ratings in making investment decisions, provided that the overall risk profile of the investment portfolio (including liquidity risk) is not compromised, and that decisions remain consistent with responsible financial management and stewardship.

BORROWING

Current Portfolio Position

- 29. The Council’s borrowing position at 31 March 2021, with forward projections are summarised below.

£'000	2021/22 Revised	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt at 1 April	55,967	72,700	77,700	78,700	76,700
Expected change in debt	7,000	5,000	1,000	(2,000)	(2,000)
Gross Debt at 31 March	62,967	77,700	78,700	76,700	74,700

- 30. Debt at 31 March 2022 is projected to be lower than originally estimated last year due to the use of internal borrowing rather than borrowing externally to fund the capital programme.

Borrowing Strategy

- 31. 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.

32. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
33. 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.
34. 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.
35. 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 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
36. The Council has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.
37. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield.
38. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
39. In addition, the Council may borrow further short-term loans to cover unexpected cash flow shortages.

Sources of Borrowing

40. The approved sources of long-term and short-term borrowing are:
 - HM Treasury's PWLB lending facility (formerly the Public Works Loan Board).
 - Any institution approved for investments.
 - Any other bank or building society authorised to operate in the UK.
 - Any other UK public sector body.
 - UK public and private sector pension funds (except the Hampshire County Council Pension Fund).
 - Capital market bond investors.
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

41. 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
42. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.
43. **Short-Term and Variable Rate Loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.
44. **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.
45. **Borrowing Limits:** These have been set as part of the Capital Strategy for 2022/23.

TREASURY MANAGEMENT INDICATORS

46. The Council measures and manages its exposures to treasury management risks using the following three treasury management indicators.
47. *Treasury Management Indicator 1 - 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	2021/22 Revised	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Limit on principal invested beyond year end	14	15	16	17	18

48. *Treasury Management Indicator 2 - Maturity structure of borrowing:* 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:

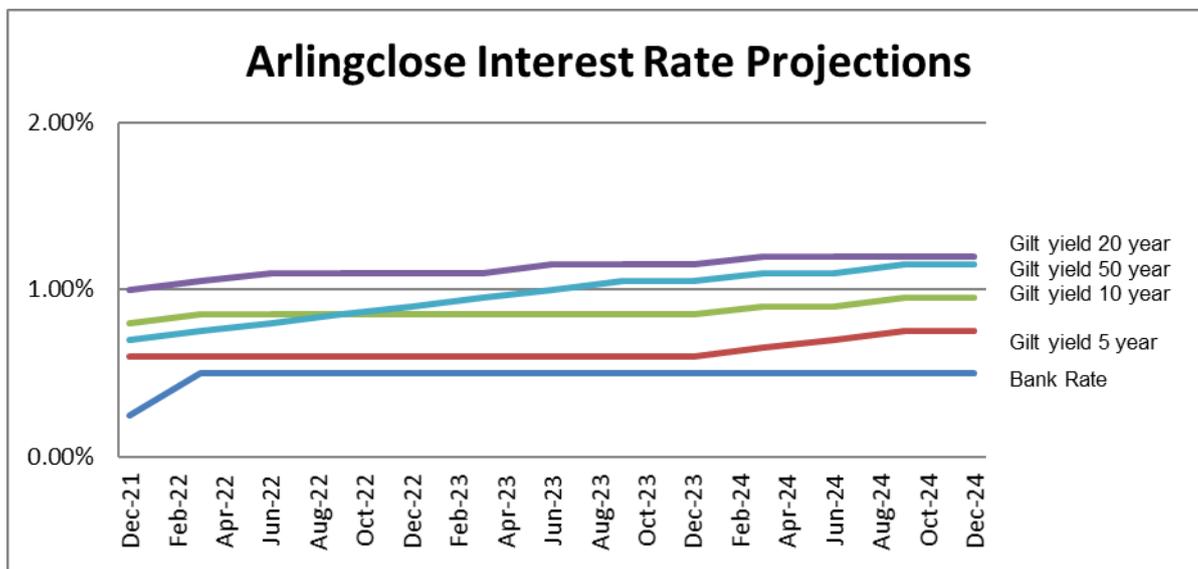
Maturity structure of borrowing	Upper Limit %	Lower Limit %
- Loans maturing within 1 year	50	0
- Loans maturing within 1 - 2 years	50	0
- Loans maturing within 2 - 5 years	50	0
- Loans maturing within 5 - 10 years	50	0
- Loans maturing in over 10 years	100	100

49. 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.
50. *Treasury Management Indicator 3 - Housing Revenue Account (HRA) ratios:* As a result of the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on **£49.3 million** of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	2021/22 Revised	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA debt £'000	49,268	49,268	49,268	49,268	49,268
HRA revenues £'000	12,510	12,983	13,104	13,638	14,062
Number of HRA dwellings	2,422	2,422	2,414	2,406	2,398
Ratio of debt to revenues %	3.94:1	3.79:1	3.76:1	3.61:1	3.50:1
Debt per dwelling £	£20,340	£20,340	£20,407	£20,475	£20,543
Debt repayment fund £'000	£5,700	£6,840	£7,980	£9,120	£10,260

INTEREST RATE FORECAST

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



53. Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the Bank of England to move away from emergency levels of interest rates.
54. Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.
55. Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Other Items

56. The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.
57. **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.
58. The unfunded HRA capital financing requirement is also charged to the HRA at the average weighted rate of the PWLB loans.
59. 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.

60. **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

61. The budget for net interest received in 2022/23 for the General Fund is £678,800 and the budget for net interest paid in 2022/23 for the HRA is £1,697,300. If actual levels of investments and borrowing, and actual interest rates differ from that forecast, performance against budget will be correspondingly different.

Other Options Considered

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

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

INVESTMENT STRATEGY

63. 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).
64. This investment strategy meets the requirements of statutory guidance issued by the Government in January 2018 and focuses on the third of these categories.
65. The Council does not currently have any service investments.

COMMERCIAL INVESTMENTS

66. 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.
67. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased commercial investment properties currently valued at **£32.3 million** and expected to generate rental income of £2.7 million during 2022/23.

Property Type	Current Value £'000
Retail	19,545
Commercial	10,665
Other	2,130
Total	32,340

68. The Council's total Commercial property portfolio, shown below, is valued at **£61.5 million** and includes Fareham Shopping Centre, Faretec and industrial estates at Palmerston Business Park and Newgate Lane.

Property Type	Current Value £'000
Retail	30,672
Commercial	19,675
Other	4,645
Office	4,000
Leisure	2,533
Total	61,525

69. 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.

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

Proportionality

71. 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	2020/21 Actual	2021/22 Revised	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Gross service expenditure	46,686	45,620	45,198	46,588	47,197	47,322
Investment income	4,645	5,779	5,477	5,432	5,427	5,427
Proportion	9.9%	12.7%	12.1%	11.7%	11.5%	11.5%

INVESTMENT INDICATORS

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

£'000	2020/21 Actual	2021/22 Revised	2022/23 Estimate
Treasury Management Investments	18,625	15,000	15,000
Commercial Investments	61,525	61,525	61,525
Total	80,150	76,525	76,525

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

£'000	2020/21 Actual	2021/22 Revised	2022/23 Estimate
Treasury Management Investments	0	0	0
Commercial Investments	31,042	30,272	29,479
Total	31,336	30,272	29,479

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

	2020/21 Actual	2021/22 Revised	2022/23 Estimate
Treasury Management Investments	3.3%	3.5%	2.7%
Commercial Investments	5.2%	5.6%	5.4%
Total	4.7%	5.1%	4.7%

CAPACITY AND SKILLS

Training

76. 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.
77. Treasury management officers regularly attend training courses, seminars and conferences provided by the Council's treasury management advisers and CIPFA.
78. 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

79. The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues.
80. 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.
81. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

ARLINGCLOSE ECONOMIC AND INTEREST RATE FORECAST

Economic Background – December 2021

The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously but notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%. In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

Credit Outlook – December 2021

Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Underlying assumptions – December 2021

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.

- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast – December 2021

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 14 March 2022

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 consider reports from the head of internal audit on internal audit's performance, including the performance of external providers of internal audit services. These will include:
 - updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.**
- d) to receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.*

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.
2. The service has been affected by some loss of resources due to sickness and the recent retirement of the Senior Audit and Fraud Analyst. Also, additional work arising from the pandemic continues to have an impact on the delivery of the Internal Audit Plans.

However, we are on track to deliver sufficient work to support the Annual Audit Opinion.

PROGRESS OF THE 2021/22 AUDIT PLAN

3. Due to the other priorities of the audit teams and the services being audited, including continued response to the challenge of the pandemic, we have now agreed to postpone the following audits:
 - Contract Management
 - Anti-Bribery Arrangements
 - Housing System – post implementation review
 - Service charges and recharges – Leaseholders
 - Vehicle Maintenance ordering, invoice management and stock control
4. However, following additional pieces of work have been added to the plan:
 - Previous recommendation follow up (selected 25 actions)
 - Revenues system migration to the Cloud
5. There are still 11 opinion audits in this year's plan. Work has commenced on all of the audits, 7 have been finalised (stage 10), 1 of the audits is at the draft report review (stage 5), with a further 2 where the scope of work is being delivered (Stage 4).
6. There are also 10 wider pieces of work we still intend to use for this year's opinion, 2 of which has already been finalised and another 3 at the draft report stage.

FINALISING PREVIOUS AUDIT PLANS

7. Updates are given for the 6 remaining audits from the previous Audit Plans as detailed in Appendix One. In particular progress is being made to close down the Commercial Estates audit which will be ready by the next meeting.

FINDINGS FROM COMPLETED AUDITS

8. The 4 final reports that have been issued since the last report 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
Fixed Assets	Strong	-	-	1
Local Taxation	Strong	-	1	1
Parking charges	Reasonable	-	1	-
Sheltered Housing	Reasonable	-	7	1

RISK ASSESSMENT

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 2021/22 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 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

Report by the Head of Finance and Audit to the Audit and Governance Committee on 12 July 2021 on the Internal Audit Plan 2021/22

Enquiries:

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

APPENDIX ONE

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	Stage reached of 10*	Original Days in Plan	Proposals to Conclude this work
2014/15			
Information Governance Opinion (Wider piece of work)	5	-	Audit relying on completion of other Audit Work – Now Targeted for July 2022 This audit will be able to be closed down once the review of all outstanding audit recommendations is commenced and the extract relating to ICT audit recommendations can be produced to feed into the final summary. This has been delayed until the 2022/23 plan.
2016/17			
Building Health and Safety Risks (Wider piece of work)	5	-	Audit Targeted for Completion using Apprentice Resources – July 2022 The draft audit report in 2016/17 generally gave strong assurance in relation to the management of these risks, although there were a few minor areas of testing that needed finalising and feeding into the report. It was originally proposed that the additional apprentice resources would be used to refresh the testing and fill in the gaps to allow the report to be finalised. However, due to other priorities it has not yet been possible to start this work. There has been some discussion of the topic as part of the risk management review which has again provided some assurance on the management of these risks.
2017/18			
Commercial Estates (Opinion audit)	8	15	Audit Targeted for Completion – Work in Progress targeted for July 2022 The draft audit report in 2017/18 generally gave reasonable assurance in relation to the management of these risks, although there were a few minor areas of testing that needed finalising and feeding into the report, and some inaccuracies needed correcting. In the meantime, some of the issues have been addressed by the Finance Service. It is therefore proposed that a revised draft report is still produced and discussed with the new manager of the service to allow the report to be finalised by the July Committee.
2018/19			
Write Offs History Analysis & Interest charges (Wider piece of work)	5	-	Audit Targeted for Completion – Now targeted for September 2022 A considerable amount of work has been carried out on this audit which was fed into the changes proposed to Financial Regulations at the September 2020 Committee. There are some parts of the analysis that need completing. Some subsequent testing has been picked up in the 2020/21 audit of Account Receivable. We have also started to discuss the results with managers and improve on some processes. This will also be picked up in the implementation of the new finance system and new service resources are now in place to assist with the actions arising from the review.
Housing Options Debtors (Wider piece of work)	8	-	Audit Targeted for Completion – Now targeted for September 2022 This second draft of this report has now been produced and is just waiting review and discussion with the service to allow the final report to be produced. Some interim discussions have taken place.

Audit Title	Stage reached of 10*	Original Days in Plan	Proposals to Conclude this work
Review of all other outstanding audit recommendations (Wider piece of work)	4	-	Audit Targeted for Completion – September 2022 There has been some progress on this project following the work carried out in 2020/21. We are also targeting 2 large groups of recommendations as part of planned work in 2021/22 (finance team's recommendations and vehicle purchasing). Work on the finance team recommendations is also underway and is being delivered alongside the review of the new financial system.

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

APPENDIX TWO

Audits in the 2021/22 Plan

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included	Errors Found? Y/N	New Recommendations		Previous Recs. (E and I only)			
							Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
FUNDAMENTAL SYSTEM AUDITS												
Local Tax Collection (1221)	10	15	Strong	⇄ 18/19	March 2022	N	-	1	-	-	-	1
Accounts Payable (1222)	10	15	Strong	⇄ 18/19	November 2021	Y	-	1	-	-	-	-
Fixed Assets (1223)	10	10	Strong	⇄ 18/19	March 2022	N	-	-	-	-	-	1
Vehicle Maintenance ordering, invoice management and stock control (1224)	Postponed											
SERVICES AND SYSTEMS – High Risk												
Sheltered Housing (1225)	10	11	Reasonable	⇄ 16/17	March 2022	Y	-	7	2	-	1	-
Parking Charges (1226)	10	15	Reasonable	⇄ 18/19	March 2022	N	-	1	1	-	-	-
Trade Waste and Recycling (1227)	10	12	Strong	⇄ 16/17	November 2021	N	-	3	-	-	-	-
Planning Applications - Nitrate Offsetting (1228)	5	10										
SERVICES & SYSTEMS – Other												
Service charges and recharges – Leaseholders (1232)	Postponed											
Car loans (1233)	4	10										
COMPUTER AUDITS												
Security and Use of DWP data services (1229)	1	8										
Housing System - post implementation review (1230)	Postponed											

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included	Errors Found? Y/N	New Recommendations		Previous Recs. (E and I only)			
							Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
Commercial rents and the Covid response	Not Planned		-	-	-	-	-	-	-	-	-	-
Information flow in the Business Rates team	Not Planned		-	-	-	-	-	-	-	-	-	-
Social Media Monitoring by services Follow Up	Not Planned		-	-	-	-	-	-	-	-	-	-
Sheltered housing safe spot checks	4	6	-	-	-	-	-	-	-	-	-	-
Pre-application advice cost comparison to income	Not Planned		-	-	-	-	-	-	-	-	-	-

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

APPENDIX THREE

Findings from the Latest Completed Audits

Audit Title	Fixed Assets	<p>Overview of Subject: The Fareham Borough Council Asset Register details approximately 3,500 assets, across a range of classes. These range from significant economic assets, for example the Faraday Business Park to sea defences and solar panel installations. The Council is also a major housing provider in the Borough, with 2,384 mostly wholly owned properties identified in the Asset Register (there are a small number held under shared ownership arrangements). As at the 31st March 2021 the total net book value of all the Council's assets was approximately £225 million.</p>
Report Number	1223	
Year of Audit	2021/22	
Type of Work	Opinion audit	
Assurance Opinion Given	Strong	
Direction of Travel	↔2018/19	
Errors Found	No	

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
Policies and Strategies			-	-	-	-	-	-
Monitoring of financial data, including balance sheet valuation and depreciation			-	-	-	-	-	-
Deeds and Insurance			-	-	-	-	-	-
Asset Register Maintenance			-	-	-	-	-	-
IT System			-	-	-	-	-	-
Disposals			-	-	-	-	-	-
Asset Management Plan/Asset Maintenance Programme			-	-	-	-	-	1

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

Previous Important

Asset Management Plan – The current Asset Management Plan continues to be reviewed. Specific areas are being examined during 2022/23 these include Leisure Buildings, Public Toilets, Car Parks and the Civic Offices.

Audit Title	Local Tax Collection	<p>Overview of Subject: Fareham Borough Council collects Council Tax and National Non-Domestic Rates (NNDR) from residential accommodation and non-residential properties respectively as contribution to the maintenance and upkeep of essential services within the Authority. The elements of the charge which do not fall under Fareham Borough Council provided services are informed to the council for inclusion in their annual bills.</p> <p>The Council Tax charge calculated across the Authority is based on a Council Tax Band D property and all charges for other bands are calculated from there. All residential and non-residential properties are provided with an annual bill, broken down to each of the different elements, the bill also provides information on various payment options.</p> <p>There are 50,393 domestic properties and 3,383 non-domestic properties within the Fareham Borough. A significant number of accounts are subject to various reliefs, discounts and exemptions.</p>
Report Number	1221	
Year of Audit	2021/22	
Type of Work	Opinion audit	
Assurance Opinion Given	Strong	
Direction of Travel	↔2018/19	
Errors Found	No	

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
Setting the Council Tax			-	-	-	-	-	-
Maintenance of Property Lists			-	-	-	-	-	-
Discounts Reliefs and Exemptions			-	-	-	-	-	1
Billing and Receipts			-	-	-	-	-	-
Amendments to Standing Data			-	-	-	-	-	-
Recovery Action			-	-	-	-	-	-
Appeals			-	-	-	-	-	-
Write Offs			-	1	-	-	-	-
System Access Controls			-	-	-	-	-	-

Precept Arrangements			-	-	-	-	-	-
Management Policies and Procedures			-	-	-	-	-	-
Reconciliations with the General Ledger			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Write Off Delays Due to COVID-19 the Local Taxation Team had to prioritise additional work and therefore some accounts put forward for write off had not been actioned. It is anticipated that write offs will be brought up to date by the end of the 2021/22 financial year.
Previous Important	Discounts, Reliefs and Exemptions It was previously recommended that a monitoring record should be developed in order that managers could monitor progress in of the completion of the reviews in relation to discounts, reliefs and exemptions. Whilst the monitoring record is now being used there has been a delay in the processing of the reviews as the priority has been to allocate resources to the delivery of the COVID related business grants. The reviews will be prioritised in the early part of 2022/23.

Audit Title	Parking charges	<p>Overview of Subject: The responsibility for on street parking resides with Hampshire County Council. The COVID-19 pandemic significantly affected car parking income. Under loc down restrictions Central Government made parking free to key workers. Because of the issues around identification of key workers all car parking was free between 25th March and 1st June 2020. Free parking was limited to NHS staff only from June 2020 to October 2020 and then to hospital-based staff only, until March 2021 when all free parking concessions ceased. The loss of income was estimated to be just over £300,000.</p> <p>A report to the Executive in September 2020 proposed that FBC started to charge for parking in the Borough's coastal car parks. This was implemented in 2021/22.</p>
Report Number	1226	
Year of Audit	2021/22	
Type of Work	Services and Systems - High Risk / Corporate project	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔2018/19	
Errors Found	No	

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
Collection of Income			-	-	-	1	-	-
Reconciliations of Takings			-	1	-	-	-	-
Season Ticket Administration			-	-	-	-	-	-
Monitoring and reporting of income			-	-	-	-	-	-
Electronic Parking Permits			-	-	-	-	-	-
Introduction of Coastal Car Parks			-	-	-	-	-	-
Coastal Car Parking Machines			-	-	-	-	-	-

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

Important	Season tickets - Testing found that there was limited documentation held to support administration of coastal parking season tickets. Testing also noted that there was no mechanism in place to cross match season tickets issued by the car parking computer system to the council's finance system. The Finance Team has agreed to liaise with the Car Parking Team to find a suitable method to enable effective reconciliation of the coastal season tickets.
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Audit Title	Sheltered Housing	<p>Overview of Subject: The Council owns 26 Sheltered Housing Schemes. The service provides accommodation for people who are aged 60 or those over 55 who require supported need. Six of the Schemes have an on-site Sheltered Housing Officer (SHO) and communal facilities. The remaining 20 Schemes are attended by mobile SHO's.</p> <p>The Council charges the tenants for some services provided in addition to their rents. The charges made to tenants include a management element for the warden service (which is eligible for Housing Benefits) and a support element (not eligible for Housing Benefit). In 2021/22 the Council levied charges totalling £428,900 for the Sheltered Housing Service and a further £98,700 for the Support Element.</p>
Report Number	1225	
Year of Audit	2021/22	
Type of Work	Services and Systems - High Risk	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔2016/17	
Errors Found	Yes	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🚨)	Important (▲)	Advisory (ℙ)	Implemented	Cancelled	Not Implemented
New Tenant Placements			-	-	-	1	-	-
Fees and Charges (Excl Service Charges).			-	1	-	1	-	-
Supervision & Management of Residents, Managers, Mobile SHO's and Cleaners.			-	-	-	-	-	-
Building Security			-	1	-	-	-	-
Daybook / Register Records			-	-	-	-	-	1
Complaints Procedures and Records			-	-	-	-	-	-
Expense Claims			-	-	-	-	-	-
Equipment Records and Stock Checks			-	1	-	-	-	-
Fire Logs / Tests/ Checks			-	-	-	-	-	-
Logs of Personal Safety Test Checks			-	1	-	-	-	-
Security Arrangements in Place			-	3	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Fees and Charges – Testing of income collected at the sheltered housing schemes highlighted a small number of discrepancies. It was agreed that a standard approach would be implemented across the schemes to record the income received for services such as guest room lettings and fees for keys and fobs.
Important	Scheme Security – Entry to the Sheltered Housing Schemes is by the use of a code. To ensure that the safety of residents is enhanced, a new system is being installed whereby staff and authorised visitors will be required to provide two random characters of a password each time they visit the scheme. It was agreed that the password will be changed at least twice a year and when a member of staff leaves. The replacement entry system was being implemented across core schemes at the time of the audit.
Important	Equipment Checks – Testing of the inventory of equipment held at the Sheltered Housing Schemes revealed that it was not clear when checks had been carried out on a small number of items detailed. Checks on the inventory have already been started with completion targeted within the next 6 months.
Important	Fire Policy – During the audit discussions were held with the Sheltered housing Officers and it was concluded that awareness of the Fire Policy should be more visible. The policy will be further communicated to staff and residents to ensure that they are fully aware of the procedures to implement should a fire break out at any of the schemes.
Important	Scheme Safes – The Sheltered Housing Handbook does not clearly state the frequency and the requirement to change individual safe codes should a member of the scheme staff leave the employment of the Council. In addition, instances were found where residents effects were being held in the safe or monies collected for scheme activities were being held in a locked drawer. The handbook is in the process of being updated and it was agreed that the relevant information would be revised to clarify when the safes codes should be changed and differentiate between what should be kept in the scheme safe and what should be the tenant's responsibility for safekeeping.
Important	Security of Residents Data – Resident's data is held as a paper copy as well as electronically. As soon as the new Housing Management computer system is implemented the holding of resident's data in paper form will be discontinued thereby ensuring a higher level of data security.
Important	Security of Sheltered Housing Officers – Those Officers who are required to carry out lone working are being provided with a lone working device which provides a tracking facility and incorporates a panic button. To ensure that all relevant officers are making full use of their device it was agreed that a usage report would be obtained and checked on a regular basis.
Previous Important	Guest Room Lettings – It was previously recommended that guest room booking forms should be completed and lettings should be recorded in the scheme daybook. Testing found that a sample of forms had not been entered in the daybook and two instances where incomplete information had been recorded. Sheltered Housing Officers will be reminded of the relevant guidance in the handbook and the importance of maintaining accurate records around guest room bookings.

APPENDIX FOUR

Reference Tables

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.

1. 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.

2. 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 issued.
Stage 4	The Auditor has started to deliver the agreed scope of work.
Stage 5	A first draft of the report has been received by the Support Officer to be reviewed.
Stage 6	Any additional testing identified has been completed.
Stage 7	An exit meeting has been held with the Sponsor giving the preliminary feedback from the work.
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: 14 March 2022

Report of: Head of Democratic Services

Subject: REVIEW OF MEMBERS' TRAINING AND DEVELOPMENT PROGRAMME

SUMMARY

The Audit and Governance Committee is charged with monitoring and reviewing the arrangements for members' training and development to ensure that the capacity of members to provide effective governance and community leadership continues to develop. This report outlines the position regarding member training and briefing sessions in 2020/21 and considers the draft training programme for 2021/22. This report also presents the New Member Induction Booklet for approval, with the opportunity for Members to make suggestions on items for inclusion.

RECOMMENDATIONS

It is RECOMMENDED that the Audit and Governance Committee-

- (a) notes the Schedule of Training and Development for 2020/21 at Appendix A;
- (b) notes the contents of the member's training and development schedule for 2021/22, at Appendix B;
- (c) considers and makes any suggestions for additional training items to be added to the draft training programme for the municipal year 2022/23, at Appendix C; and
- (d) notes the draft New Members' Induction Booklet 2022 as set out in Appendix D.

INTRODUCTION

1. In November 2003 the Standards Committee Terms of Reference were revised to include responsibility for monitoring Members' training and development and it was agreed that the Committee would review the proposed programme of training annually to ensure it met Members' needs as well as undertaking an annual review of the range and quality of training and development.
2. In March 2013, the Audit and Governance committee agreed that a new approach to new member induction training be approved in a modular form to provide on-going support to new members.

THE STRATEGY

3. The committee is reminded of the main provisions of the Council's training and development strategy which contributes to the Council's aims and objectives and underpins good practice.
4. The strategy aims to provide members with opportunities for developing a range of skills and a depth of knowledge which will equip them to fulfil their roles and provide effective community governance. It recognises that these skills and knowledge are developed through a variety of means, not just through formal training events. Thus, members' skills and knowledge may be equally developed through informal arrangements such as personal reading and research, newsletters and briefing reports; interaction with other members, officers, constituents, joint working with other authorities and with partners; shadowing, coaching and mentoring.
5. The strategy recognises that in the main, members' development can be managed by the individual members themselves; but to establish a development framework, an annual programme of training events which reflects more precisely the needs of all Councillors would be established. The individual needs of Councillors will be addressed wherever possible, and a variety of development methods offered to suit the individual member.
6. The majority of knowledge-based training can be delivered in-house within existing budgets. Where externally led training does need to be provided, priority will be given to those topics which benefit several members but, budget permitting, lower priority items will be delivered. Where external trainers are used, they are chosen for their knowledge of the subject as well as experience in training delivery.
7. Members are informed of training opportunities by way of the Member's newsletter and/or by email/calendar invitation which enables the Member to accept or decline and allows the session to automatically populate in their calendar. The additional benefit of inviting members via calendar invitation is it enables the Committee team to see the proposed attendance and manage the session to ensure effective use of meeting rooms.
8. Dates for Member forthcoming training and briefing sessions are also included on the Members' Monthly newsletter.

2020/21

9. As report to the Committee in March 2021 outlined, the UK was still experiencing challenges to the Coronavirus pandemic.
10. Section 60 of the Government's Coronavirus Act 2020 provided for the postponement of elections due to be held on 07 May 2020 and, as such, gave provision for an extension to their term of office until May 2021.
11. As a result of the uncertainty and guidelines around social distancing some training sessions were not held. In the main these were those scheduled for newly Elected Councillors.

2021/22

12. At the time the Audit and Governance Committee did receive their annual report in 2021, the UK was still experiencing a National Lockdown due to the Pandemic and the Committee was advised that the Local Elections remained scheduled for 06 May 2021. This Election took place and the new Councillors received scheduled training sessions as outlined in the Appendix presented and agreed by the Committee, and as attached at Appendix A.
13. The Committee is reminded that whilst these sessions are for new Members, any existing Councillor is welcome to attend as a refresher session.
14. During the year some of the sessions were held virtually in line with Government guidelines for social distancing. Whilst it is envisaged most training sessions will be face-to-face, there is provision to hold some briefings virtually following Executive approval on the future of virtual meetings.
15. It should be noted that at the commencement of each municipal year, a skeleton schedule of training sessions is prepared, and this is expanded throughout the year with topics relevant to current issues and projects as the Council works to deliver its priorities and these items will also, most certainly, have an interest to Borough residents, hence the need for Councillor awareness.
16. The Council offers Safeguarding training to all new Councillors, as well as an annual refresher session at some point during the municipal year.
17. Attached at appendix C is the draft Schedule of Training and Development for 2022/23. Members are invited to comment on this and make recommendations for training items for inclusion.

NEW MEMBER TRAINING MODULES

18. All new Members receive a Member Induction booklet as part of an introduction package distributed after the election results are declared. This was introduced following feedback from Members during previous consultations.
19. Included within the introduction package is a booklet which sets out training modules for new Councillors in their first six months.

20. Due to the Elections being held on the 5 May 2022 and the first Council meeting on the 12 May 2022, there is a tight timescale for the initial modules which introduce new Members to the Council, as well as covering essential procedural information for the Annual Council meeting and administrative tasks.

21. The draft Member Induction booklet is included at Appendix D.

RISK ASSESSMENT

22. The decisions the committee is being asked to make presents minimal risk, but it gives Members of the Committee an opportunity to influence the training provided to new and existing Councillors, based on their experiences and knowledge.

23. It is important to adopt a programme of training and development which is responsive to Members' needs and without this, it could possibly restrict the capacity of the Council to fulfil its responsibilities of community leadership and local governance.

CONCLUSION

24. Members are asked to consider the contents of this report and to suggest any additional training sessions which they feel may benefit Councillors in the next municipal year.

Appendices:

Appendix A – Members' Training and Briefing Schedule 2020/21

Appendix B – Members' Training and Briefing Schedule 2021/22

Appendix C - Draft Members' Training and Briefing Schedule 2022/23

Appendix D - Draft New Members' Induction Booklet 2022

Background Papers:

Training attendance records

Reference Papers:

Minutes of the Standards Committee 26 November 2003.

Report to the Audit and Governance Committee on Member training & development and revised New Member Induction package 11 March 2013.

Report to the Audit and Governance Committee 23 March 2020.

Report to the Audit and Governance Committee 15 March 2021.

Report to the Executive 07 December 2021.

Coronavirus Act 2020.

Enquiries:

For further information on this report please contact Leigh Usher, ext. 4553.

REVIEW OF MEMBERS' TRAINING AND DEVELOPMENT PROGRAMME

Appendix A – Schedule of Training and Development 2020/21

12 May 2020	New Member module 1 – cancelled
19 May 2020	New member module 2 – cancelled
21 May 2020	New member module 3 – cancelled
15 July 2020	Nitrate Mitigation Proposals: All member Briefing
08 October 2020	Planning for the Future – White Paper: All member briefing
21 January 2021	Changes to the viability of the Welborne Planning Application: All member briefing

REVIEW OF MEMBERS' TRAINING AND DEVELOPMENT PROGRAMME

Appendix B – Schedule of Training and Development 2021/22

13 May 2021	Newly Elected Councillor Inductions (module 1): Welcome, introduction and overview of key points
24 May 2021	Newly Elected Councillor (module 2): – Introduction to the Planning Committee
25 May 2021	All member briefing: Revised Publication Local Plan
28 May 2021	Newly Elected Councillor Induction Day (module 3)
10 September 2021	All member briefing: Council's Tree Review
20 September 2021	All member briefing: Restarting the remodelling of the Fareham Live project
22 September 2021	Licensing Training for Members of the Licensing Panel
18 October 2021	All member visit - Daedalus
23 February 2022	All member workshop: Member Safety
05 April 2022	All member briefing - Affordable Housing

REVIEW OF MEMBERS' TRAINING AND DEVELOPMENT PROGRAMME

Appendix C – Draft Schedule of Training and Development 2022/23

10 May 2022	Newly Elected Councillor Inductions (module 1): Welcome, introduction and overview of key points
18 May 2022	Newly Elected Councillor (module 2): – Introduction to the Planning Committee
26 May 2022	Newly Elected Councillor Induction Day (module 3)
TBC	Licensing Training for Members of the Licensing Panel

FAREHAM
BOROUGH COUNCIL

**NEW MEMBER WELCOME
INDUCTION BOOKLET**

Introduction from the Chief Executive

Dear Councillor,

I would like to take this opportunity to personally congratulate you on your election as a Councillor for Fareham Borough Council and I extend a very warm welcome to you.

This induction booklet has been compiled to assist you in your role throughout your term of office. It contains important information for ongoing reference and an electronic version of the document will be updated on the website as required. In addition, there are a number of forms for you to complete and return, as explained in the attached letter.

The booklet includes a number of web links which allow you to access information across the Council's website and direct you to other useful websites.

I hope you will attend the training provided as shown on the enclosed schedule and you will find my officers willing to explain any areas which are unclear.

I look forward to working with you during the forthcoming Council term.

A handwritten signature in black ink that reads "Peter Grimwood". The signature is written in a cursive style with a large initial 'P' and 'G'.

Peter Grimwood
Chief Executive

Congratulations on your election to Fareham Borough Council.

The Head of Democratic Services, Leigh Usher and her team would like to welcome you and introduce you to the Council.

The following pages give an overview of the Council and a list of key contacts. A scheme of training has been adopted to assist new Members in familiarising themselves with the work of the Council and is also attached.

Member training and development is considered to be an integral part of the Council's business and it is recognised that the Council can achieve its aims and objectives to assist Members in dealing with the demands placed upon them.

Fareham Borough Council:

- Recognises the need to provide appropriate training and development and learning opportunities to all members
- Will identify resources to provide training and development to maximise the potential of its members
- Recognises that continued investment and commitment to training and development are essential to Fareham Borough Council, if quality services are to be provided, maintained and continually improved;
- Requires all members to actively participate and ensure that training needs are identified through completion of a training needs assessment every two years to enable the appropriate investment of the Authority's resources in the training and development of all members, and
- Recognises its responsibility to provide equal access for all members to training and development in accordance with equal opportunities and existing policies.

I look forward to meeting you at the first induction session on Tuesday 10 May at 4.30pm. If you have any queries, please do not hesitate to telephone as follows:

Leigh Usher
Head of Democratic Services
01329 824553
lusher@fareham.gov.uk

Samantha Wightman
Committee and Information Services Manager
01329 824594
swightman@fareham.gov.uk

NEW MEMBER INDUCTION TRAINING TIMETABLE

05 May 2022

Elected

Paperwork received will include Acceptance of Office, bank details car registration and Declarations of Interests form – to be returned on or before 10 May.

Please note the following timeframes:

- Your Acceptance of Office form must be signed and returned to the Head of Democratic Services before the Annual Council Meeting. Without this, you cannot attend that meeting.
- Your Declaration of Interests form must be returned to the Head of Democratic Services by 27 May 2021.

After 05 May 2022

You will be contacted by an ICT Officer to make a mutually convenient appointment to set up your IT device and offer training on the systems available to you.

Tuesday 10 May at 4.30pm

Module 1 – Welcome, Introduction, Overview of key points and use of virtual platform

Required attendance – all new Members

Venue – Council Chamber, Civic Offices

- Attend Civic Offices to have photo taken for ID badge (ICT) and for the website & formal publications (floor 8)
- Opportunity to hand in paperwork given out on Election night and undertake various administration tasks
- Return Parking Permit Application - please bring your driving licence to receive your car parking pass (this will not be copied or retained by the Council)
- Short ICT briefing
- Short presentation from the Head of Democratic Services to outline Council Meeting procedures, Declarations of Interest, Petitions and Motions, committees, information security and group rooms in readiness for Annual Council meeting

Wednesday 18 May 2021 at 4pm

Module 2 – Introduction to sitting on Planning Committee

Required attendance – all new Councillors who are appointed to sit on Planning Committee

Venue – online via Microsoft Teams

This session is for new Councillors who have been appointed to sit on Planning Committee and it will cover the procedures for these meetings.

Thursday 26 May 2021: 10am – 4.30pm
Module 3 – New Member Induction Training Day
Required attendance – all new Members
Venue – Council Chamber

10am	<p>Welcome and Introductions Fire procedure at the Civic Offices Presented by Leigh Usher, Head of Democratic Services</p> <p>Roles and responsibilities including Code of conduct; registering interests; declarations of interests and the use of Social media Presented by Sarah Robinson, Monitoring Officer and Richard Ivory, Solicitor to the Council</p>
11.15am	Break
11.25am	<p>Overview of the Council’s Constitution including Standing Orders and Financial regulations Presented by Leigh Usher, Head of Democratic Services and Elaine Hammell, Head of Finance and Audit.</p>
12.25pm	<p>Corporate Strategy and Objectives; Equality and Inclusion; and The Council’s response to Climate Change & its Action Plan Presented by Roy Brown, Policy Research and Engagement Manager</p>
1.10pm	Lunch
2pm	<p>Committee structure, scrutiny, motions to Council and petitions Presented by Leigh Usher, Head of Democratic Services</p>
2.45pm	<p>Freedom of information, Data Protection and the UK General Data Protection Regulation Presented by Leigh Usher, Head of Democratic Services and Data Protection Officer</p>
3.30pm	Break
3.40pm	<p>Safeguarding Presented by Narinder Bains, Community Safety Manager</p>
4.10pm	Close of day Leigh Usher
4.30pm	Session end

~ Some of these topics will be revisited in detail during your term of office in future training sessions ~

September/October 2022

Module 4 – Review of Role

Civic Offices

This session will be an individual appointment with Leigh Usher, Head of Democratic Services to discuss the training programme and any further training requirements you may have, or wish to, suggest.

November/December 2022

Module 5 – Induction – What’s Missing!

How can we help you further? Are there any further requirements you may have? Requests for further training or clarification?

Please don't wait though...if there is anything we can assist with in the meantime, please do contact the Committee team who will be happy to help or signpost you to the right person or department.

Training sessions will be arranged during the year for all councillors regarding specific topics and changes in legislation.

If you have any particular requirements, please discuss these with Samantha Wightman, Committee and Information Services Manager on 01329 824594 or email

swightman@fareham.gov.uk

APPENDIX 1 COMMITTEE CALENDAR

Local people want to know that the people they elected to represent are doing so. This can involve speaking out on issues that impact on the ward or the borough, such as planning applications. The Council website www.fareham.gov.uk has information on past committee and individual decisions, agendas, reports and minutes from 2008 and the committee calendar for the current year. <http://moderngov.fareham.gov.uk/ieDocHome.aspx?bcr=1>

The website also shows details of your colleagues, the County Councillors, MPs and MEPs.

A copy of the committee calendar is shown on the Council's website here - <http://moderngov.fareham.gov.uk/mgCalendarMonthView.aspx?GL=1&bcr=1>

And you can see the dates of the committees to which you are appointed and the Council meeting that all councillors attend. For your ease of reference initially, we attach a paper copy of the schedule.

Meetings generally start at 6pm except Planning Committee which begins at 2.30pm and, on occasions, we may convene a meeting during the day. You will be sent an agenda before a meeting for each committee on which you sit which shows the start time, Chairman, Vice Chairman, committee members, minutes of last meeting and officer reports to be discussed. Contact details for the report writer is shown at the end of every report if you require clarification on any point in the report.

If you are unable to attend a meeting to which you are appointed or Council, as well as advising the Chairman, please also confirm to the Committee officer, or team, prior to the meeting if a deputy is attending in your place.

This will enable us to ensure a quorum of Councillors will be present.

Democratic Services can be contacted:

By phone on 01329 824594;

By email at democraticservices@fareham.gov.uk

In person on floor 9 of the Civic Offices

You may also be appointed to serve on an Outside Body on behalf of the council. There are a number of organisations which are independent from the council but have an impact on our service areas. In order that the council can maintain effective partnerships with a number of these organisations, representatives of the council, usually elected councillors sit on the various committees and forums that are responsible for them. You will be appointed at the first meeting of Council and details of the organisation and their meetings will be sent to you. These organisations usually meet 2 or 3 times a year.

APPENDIX 2 COMMITTEE TEAM

The Committee Team support all Council Committees and panels, as well as Member training, processing claims and distributing Councillors' post.

The Committee team are located on Floor 9 of the Civic Offices and comprises:

Leigh Usher
Head of Democratic Services

Samantha Wightman
Committee and Information Services Manager

Melanie Bettley
Committee and Information Officer

Astra Hughes
Committee Officer

Julie Lumley-Pistor
Committee Officer

Although committees are allocated between the team and each officer will have a responsibility for supporting those Committees and carrying out all associated administrative tasks, please approach any member of the team who will be happy to help you.

Councillor's post trays are also located in Democratic Services on floor 9. You will have been asked how you wish your post to reach you – posted or collected. If there is any change to this, please let one of the Committee Team know who will note this.

The Elections Team are also located on floor 9 and are happy to answer any of your Election enquiries.

APPENDIX 3 MANAGEMENT TEAM

As shown on the chart (attached to this document), the Chief Executive is responsible for the employees and their actions. He is supported by four directors and a number of Head of Service officers reporting to them.

In addition, there are a number of key contacts who deal with particular areas that may be of concern to you or your residents.

APPENDIX 4 KEY CONTACTS

This is an A-Z list of contacts within the Council for your ease of reference (attached to this document).

APPENDIX 5 MEMBERS' ALLOWANCES SCHEME

Anyone elected as a councillor may claim payments for carrying out their duties. Our scheme under which these are made includes a basic allowance payable to all councillors and special responsibility allowances which are paid to some who have additional responsibilities.

The basic allowance is intended to recognise the time commitment all Councillors have to make, including such calls on their time such as attending meetings and dealing with constituency matters. The special responsibility allowances are available to councillors with significant extra duties and responsibilities such as the Executive Leader or the chairmen of committees. There are also various allowances available such as travel and subsistence. A carers' allowance is also available to assist councillors with expenditure necessarily incurred in arranging for the care of their dependants or children.

Allowances are automatically paid monthly into your nominated bank account but claims for travel and subsistence must be made on the appropriate form and submitted to Democratic Services within three months of incurring the expenditure.

If you have any payroll enquiries, please speak to Neil Wood.

A copy of the members' allowances scheme can be found at this link http://www.fareham.gov.uk/about_the_council/governance/memballow.aspx

A paper copy is available on request from the Committee team.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 14 March 2022

Report of: Monitoring Officer

Subject: ANNUAL REPORT OF THE AUDIT & GOVERNANCE COMMITTEE

SUMMARY

This report summarises the work carried out by the Audit and Governance Committee during 2021/22 and proposes the programme of work for 2022/23.

RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee: -

- a) notes the contents of the report;
- b) confirms that there are no issues arising from the review of the Statement of Accounts and subsequent external audit report, at the same meeting, that the Committee feel need to be brought to the attention of the Council; and
- c) submits the revised work programme for 2022/23, as shown in [Appendix C](#), to Council for endorsement.

INTRODUCTION

1. This annual report summarises how this Committee has performed during 2021/22 in relation to the purpose and functions set out in the constitution. It should be noted that 2021/22 was the second year of the Covid-19 pandemic but this had limited impact on the operation of the Committee in the year.

COMMITTEE ORGANISATION 2021/22

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 previous 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 was comprised of seven members who reflect the political balance of the Council. The Committee had a new Chairman for the year who had previously served on the Audit and Governance Committee for a number of years; there were also two other changes in membership of the Committee.
4. The Committee was supported in its work by the Monitoring Officer, with the Deputy Chief Executive Officer / Section 151 Officer also in attendance at every meeting. The Committee reported directly to the Council.
5. The Committee met four times in the year. All meetings were held in person, with the first meeting of the year being held under enhanced social distancing measures. At the meeting of 22 November 2021 a serving Committee member was appointed to chair the meeting as both the Chairman and the Vice-Chairman were unable to attend.

COMMITTEE ACTIVITY IN 2021/22

6. The work being carried out by the Committee to fulfil its responsibilities is reported as a work programme to each Committee and is summarised in [Appendix A](#). The full list of the functions of the Committee is given in [Appendix B](#).
7. 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 (to be confirmed during the meeting).
 - (c) There were no requests from the Committee for further information to be provided.

8. The majority of the reports contained in the work programme approved at the March 2021 meeting have been presented to the Committee, at some point in the year. There was one additional piece of work carried out by the Committee in addition to the original work programme, which covered the Arrangements for the Appointment of the next External Auditors.
9. The table below shows the reports missed and the proposals on how to address the work missed:

Original Meeting Scheduled	Subject	Proposal
March 2022	Internal Audit Annual Plan	Team to work to a provisional quarter 1 plan with full plan to be presented at the July 2022 meeting.
March 2022	External Audit Annual Plan	An outline plan to be prepared with a potential presentation at the July 2022 meeting if the full plan is not finalised by then.
March 2022	Annual Auditor's Report and Value for Money commentary	This work is nearly complete and should be presented to the July 2022 meeting.
November 2021	Anti-Bribery Policy	This work has been postponed to the 2022/23 internal audit plan with the provisional aim to be complete for the November 2022 meeting.
November 2021	Annual Review of the Constitution	The review is in progress which is covering all 9 parts of Part 5 of the Constitution. The conclusions will be brought to the Committee later in the year when the work has been completed. Provisional aim for the November 2022 meeting.
March 2022 (extra item)	Review of Members Complaints Procedures	The review is in progress. The conclusions are to be included in the Constitution Report above.

TRAINING EVENTS

10. There were no specific training events for the Members of the Committee during 2021/22. However, the full programme of planned and delivered training for members is being presented as a separate report to the March Committee.

WORK PROGRAMME 2022/23

11. The proposed work plan for the Committee for 2022/23 is attached as [Appendix C](#). The following items are in the programme for cyclical review this year in addition to the annual items:
 - Review of the Anti-Bribery Policy
 - Review of the Counter Fraud Policy and Strategy

- Review of the Financial Regulations
- Update on the arrangements for the Appointment of the next External Auditors

RISK ASSESSMENT

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

CONCLUSION

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

Appendices:

[Appendix A](#) – Work carried out in 2021/22 in support of the functions of the Committee

[Appendix B](#) – Functions of the Audit and Governance Committee as set out in the constitution

[Appendix C](#) – Proposed Work Programme for 2022/23

Background Papers: None

Reference Papers: Minutes of and reports to Audit and Governance Committee for the Municipal Year 2021/22

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

The Accounts and Audit (Coronavirus) (Amendment) Regulations 2021

Enquiries:

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

APPENDIX A

Work carried out in 2021/22 in support of the Functions of the Committee

Function	Work Completed
Overall Purpose and Accountability	Regular reviews of the work programme Annual Report of the Committee for 2020/21
Corporate Governance and Annual Governance Statement	Review of Annual Governance Statement 2020/21
Risk Management and Internal Control	Risk Management Monitoring Reports (November and March)
Value for Money	<i>No work completed</i>
Counter Fraud	Counter Fraud Annual Report 2020/21
Partnerships	Partnership Governance Report 2020/21
Internal Audit	Internal Audit Annual Plan 2020/21 Head of Audit's Annual Opinion Report 2020/21 Regular Internal Audit Progress Reports
External Audit	Annual Certification Report 2020/21 External Audit Annual Plan and Fee 2020/21 Arrangements for Appointment of next External Auditors
Financial Reporting	Review of the Statement of Accounts 2020/21 (unaudited) External Audit – Audit Results Report 2020/21
Standards and Ethics	Annual Ombudsman Reports and Overview of Complaints against members Review of Members Training and Development Programme
Treasury Management	Treasury Management Progress Report 2020/21 Treasury Management Strategy and Indicators 2021/22
Key Policy Review	Prevention of the Facilitation of Tax Evasion Review of the New Procurement and Contract Procedure Rules
Considering Other Matters Referred to the Committee	Results of Inspection carried out by the Investigatory Powers Commissioner's Office Extension to the Internal Audit partnership contract with Portsmouth City Council

Part 2 Chapter 8 of the Constitution - Functions of the Audit and Governance Committee

OVERALL PURPOSE
<p>The Audit and Governance committee is a key component of Fareham Borough Council’s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.</p> <p>The purpose of our audit committee is to:</p> <p>Provide independent assurance to those charged with governance (the Full Council) of the adequacy of the risk management framework and the internal control environment.</p> <p>Provide independent review of Fareham Borough Council’s governance, risk management and control frameworks and oversee the financial reporting and annual governance processes.</p> <p>Oversee internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.</p>
ACCOUNTABILITY
<p>The Audit and Governance Committee should report to those charged with governance (the Full Council) on the committee’s findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.</p> <p>The Audit and Governance Committee should publish an annual report on the work of the committee including details of coverage against the purposes of the Committee.</p>
GOVERNANCE, RISK AND CONTROL
Corporate Governance
<p>The Audit and Governance Committee's areas of responsibility for Corporate Governance are: -</p> <ol style="list-style-type: none"> a) To review the Council's arrangements for corporate governance, against the good governance framework, including the ethical framework, and consider the local code of governance. b) To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
Annual Governance Statement
<p>To review the Council's Annual Governance Statement, prior to approval, and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit’s opinion on the overall adequacy and effectiveness of the council’s framework of governance, risk management and control.</p>
Risk Management and Internal Control
<p>The Audit and Governance Committee's areas of responsibility for Risk Management and Internal Control are:</p> <ol style="list-style-type: none"> a) To monitor the effective development and operation of risk management in the Council. b) To monitor progress in addressing risk-related issues reported to committee.

- c) To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

Value for Money

To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

Counter Fraud

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

- a) To review the policies and measures in place to prevent fraud and corruption.
- b) To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- c) To monitor the counter-fraud strategy, actions and resources.

Partnerships

The Audit and Governance Committee's areas of responsibility for partnerships are to review the governance and assurance arrangements for significant partnerships or collaborations.

AUDIT

Internal Audit

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

- a) To approve the internal audit charter.
- b) To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- c) To approve the risk-based internal audit plan, including internal audit's resource requirements and the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- d) To approve significant interim changes to internal audit plan and resource requirements.
- e) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- f) To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.
- g) To consider reports from the head of internal audit on internal audit's performance, including the performance of external providers of internal audit services. These will include:
 - updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - Reports on the results of the Quality Assurance and Improvement Plan (QAIP)
 - conformance to the Public Sector Internal Audit Standards considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement, and whether this affects the reliability of the conclusions of internal audit.
- h) To consider the head of internal audit's annual report and opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion.
- i) To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- j) To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External Audit

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

- a) To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA).
- b) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- c) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance (the Full Council).
- d) To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies

FINANCIAL REPORTING

The Audit and Governance Committee's areas of responsibility for the Council's Financial Reporting are:

- a) To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- b) To consider the external auditor's report to those charged with governance (the Full Council) on issues arising from the audit of the accounts.

WIDER FUNCTIONS OF THE AUDIT AND GOVERNANCE COMMITTEE

The Audit and Governance Committee is responsible for carrying out wider functions for the Council in relation to:

- a) Standards and ethics
- b) Treasury management
- c) Key policy review
- d) Considering other matters

Standards and Ethics

The Audit and Governance Committee's purpose is also to:

- a) To lead on the Council's duties under Chapter 7 of the Localism Act 2011 and to design, implement, monitor, approve and review the standards of ethics and probity of the Council both for councillors and employees; and
- b) To promote, maintain and strengthen high standards of conduct by members and co-opted members of the Council.

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

- a) Advise on an internal framework of probity and standards of conduct that should be followed by members and officers.
- b) Formulate, monitor and revise, as necessary, Local Codes of Conduct for members and officers.
- c) Formulate, monitor and revise, as necessary, a protocol for member/officer relationships.
- d) Issue guidance and best practice advice with regard to probity and ethics including the following:
 - the declaration and registration of members' interests
 - claims for members' allowances and expenses
 - acceptance of, or dealing with, offers of hospitality and gifts made by third parties
 - the provision to members of hospitality, goods, services and facilities by the Council
 - the undertaking of travel and foreign visits.

- e) Advise on such other matters of a similar kind that may be referred to the Committee.
- f) Issue advice and guidance to members representing the Council on outside bodies.
- g) Receive, consider and, where necessary, act on reports, guidance and advice from the Council's Monitoring Officer and the Local Government Ombudsman.
- h) Provide appropriate training for members and officers with regard to any of the above and the ethical governance of the Council generally.
- i) Appoint such sub-committees, panels or working parties as are deemed appropriate to undertake specific parts of these Terms of Reference.
- j) Consider complaints against members' conduct and assess allegations of breaches of the Code of Conduct for Members to determine such complaints.
- k) Monitor and review members' training and development.
- l) To establish a Standards Sub-Committee to investigate and determine appropriate actions in respect of alleged breaches of the Members' Code of Conduct.

Treasury Management

The Council nominates the Audit and Governance Committee to be responsible for ensuring effective scrutiny of the implementation of the Council's Treasury Management Strategy and Policy.

Key Policy Review

The Audit and Governance Committee is responsible for reviewing and making recommendations to Council on its Constitution including Financial Regulations and Procurement and Contract Rules.

In carrying out this work the committee should advocate the principles of good governance and help ensure that there are appropriate governance, risk, control and assurance arrangements in place.

Considering Other Matters Referred to the Committee

Occasionally the Audit and Governance Committee may be requested to review an issue referred to it by another committee or a statutory officer.

WORK PROGRAMME FOR 2022/23

Committee Function and Report Subject		Frequency	Last Covered	July 2022	Sept 2022	Nov 2022	March 2023
OVERALL PURPOSE AND ACCOUNTABILITY							
Review of Work Programme and training plan		Quarterly	2021-22	YES	YES	YES	YES, and Annual Report for 2021/22
Review of the Functions of the Committee		3 yearly	2019-20		YES		
GOVERNANCE, RISK AND CONTROL							
Corporate Governance & AGS	Local Code of Corporate Governance	As needed	2016-17				
	Annual Governance Statement	Annual	2021-22	YES			
Risk Management	Policy	As needed	2016-17				
	Risk Management Monitoring Reports	6 monthly	2021-22		YES		YES
	Business Continuity	3 yearly	2018-19			YES	
	Specific Risk Management topics	As needed	2019-20 (cyber security risks)				
Value for Money	Specific VFM studies	As needed	None				
Counter Fraud	Counter Fraud Policy and Strategy	3 yearly	2016-17			YES	
	Anti-Bribery Policy	As needed	2011-12			YES	
	Sanctions and Redress Policy	As needed	2016-17				
	Counter Fraud Annual Report	Annually	2021-22	YES			
Partnerships	Partnership Governance Report	Annually	2021-22		YES		
AUDIT							
Internal Audit	Internal Audit Strategy	3 yearly	2018-19				
	Internal Audit Annual Plan	Annual	2021-22	YES (from March)			YES
	Internal Audit Progress Report	Quarterly	2021-22	YES	YES	YES	YES

Committee Function and Report Subject		Frequency	Last Covered	July 2022	Sept 2022	Nov 2022	March 2023
	Head of Audit's Annual Opinion	Annual	2021-22	YES			
External Audit	Arrangements for Appointment of External Auditors	As needed	2021-22		YES		
	Annual Plan and Fee	Annual	2020-21	YES			YES
	Annual Auditor's Report and VFM commentary	Annual	2020-21	YES			
	Annual Certification Report	Annual	2021-22				YES
	Specific reports from inspection agencies	As needed	2018-19 (RIPA)				
FINANCIAL REPORTING							
Statement of Accounts		Annual	2021-22	YES			
External Audit – Audit Results Report		Annual	2021-22		YES		
WIDER FUNCTIONS OF THE COMMITTEE							
Standards and Ethics	Review of Code of Conduct for Members	As needed	2015-16				
	Review of member / officer protocol	As needed	2008-09				
	Annual Ombudsman Reports and Overview of Complaints against members	Annual	2021-22		YES		
	Review of Members Training and Development Programme	Annual	2021-22				YES
Treasury Management	Treasury Management Strategy and Indicators	Annual	2021-22			YES	YES - Policy and indicators
Key Policy Review	Annual Review of the Constitution	Annual	2020-21			YES	
	Review of Financial Regulations	3 yearly	2019-20				YES
	Review of Procurement and Contract Procedure Rules	3 yearly	2021-22				
	Prevention of the Facilitation of Tax Evasion	As needed	2021-22				
Other Matters referred to the Committee	Updates on legal issues	As needed	2017-18				
	Issues referred by the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				
Number of Items				9	8	7	9

