

# FAREHAM

BOROUGH COUNCIL

## AGENDA

### AUDIT AND GOVERNANCE COMMITTEE

**Date:** Monday, 12 July 2021

**Time:** 6.00 pm

**Venue:** Council Chamber - 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  
J 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 15 March 2021.

**3. Chairman's Announcements**

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

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

**5. Deputations**

To receive any deputations of which notice has been lodged.

**6. External Audit Annual Plan and Fee (Pages 9 - 56)**

To consider a report by the Deputy Chief Executive Officer on the External Auditor's Annual Plan for 2021/22 and proposed Fee for the 2020/21 audit of the accounts.

**7. Counter Fraud Annual Report (Pages 57 - 68)**

To consider the Annual Counter Fraud Report by the Head of Finance and Audit.

**8. Annual Governance Statement (Pages 69 - 102)**

To consider a report by the Head of Finance and Audit on the Council's Annual Governance Statement.

**9. Internal Audit Annual Plan (Pages 103 - 110)**

To consider a report by the Head of Finance and Audit on the Internal Audit Plan for 2021/22.

**10. Internal Audit Progress Report (Pages 111 - 136)**

To receive a report from the Head of Finance and Audit on the progress of the 2021/22 Internal Audit work.

**11. Head of Audits Annual Opinion (Pages 137 - 152)**

To consider the Head of Audits Annual Opinion report by the Head of Finance and Audit.

**12. Review of Work Programme (Pages 153 - 158)**

To receive a report by the Head of Finance and Audit on the Committee's Work Programme for 2021/22.



P GRIMWOOD  
Chief Executive Officer

Civic Offices  
[www.fareham.gov.uk](http://www.fareham.gov.uk)  
01 July 2021

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



# FAREHAM

BOROUGH COUNCIL

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

**Date:** Monday, 15 March 2021

**Venue:** Microsoft Teams Virtual Meeting

**PRESENT:**

**Councillor** J E Butts (Chairman)

**Councillor** S D Martin (Vice-Chairman)

**Councillors:** P J Davies, T Davies, Mrs T L Ellis, Mrs C Heneghan and J G Kelly

**Also  
Present:**



**1. APOLOGIES**

There were no apologies of absence received at the meeting.

**2. MINUTES**

RESOLVED that the Minutes of the Audit and Governance Committee meeting held on the 23 November 2020 be confirmed and signed as a correct record.

**3. CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements made by the Chairman at this meeting.

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

There were no declarations of interest made at this meeting.

**5. DEPUTATIONS**

There were no deputations made at this meeting.

**6. EXTERNAL AUDIT CERTIFICATION REPORT**

The Committee considered a report by the Head of Housing and Benefits on the External Audit Certification Report which sets out the findings from the 2019/20 housing benefit subsidy certification work carried out by the External Auditors (KPMG).

RESOLVED that the Audit and Governance Committee:-

- a) consider the findings of the Annual Certification Report 2019/20 submitted to the Department of Work and Pensions by the Council's external auditors; and
- b) commented on the finding as appropriate.

**7. EXTERNAL AUDIT ANNUAL AUDIT LETTER 2019/20**

The Committee considered the Annual Audit letter 2019/20, by the External Auditors Ernst and Young, which summaries the findings from the 2019/20 audit.

RESOLVED that the Audit and Governance Committee notes the contents of the Annual Audit Letter 2019/20 submitted by the Council's external auditors, attached as Appendix A to the report.

**8. TREASURY MANAGEMENT STRATEGY AND INDICATORS**

The Committee considered a report from the Finance Manager, on the Treasury Management Strategy and Indicators for 2021/22.

RESOLVED that the Audit and Governance Committee note the Treasury Management Strategy and Prudential Indicators for 2021/22, attached as Appendix A to this report.

## **9. REVIEW OF MEMBERS TRAINING DEVELOPMENT PROGRAMME**

The Committee considered a report by the Head of Democratic Services reviewing the Members Training and Development Programme.

The Head of Democratic Services explained that although limited formal training and briefings were provided during the last year, all Members have learnt and developed new skills in attending and fully participating in virtual meetings during the period of national lockdown in response to the Covid-19 pandemic and that this amount of skills development should not be underestimated.

The Chairman, on behalf of the Committee, thanked all Members of the Committee Team for the help and support in facilitating all the Council's virtual meetings during the pandemic.

It was also highlighted to Members that there was an error within recommendation d), as the year should be 2021 not 2020 as stated in the report.

RESOLVED that the Audit and Governance Committee: -

- a) notes the Schedule of Training and Development for 2019/20 as outlined in Appendix A;
- b) agrees that the draft member's training and development schedule for each forthcoming municipal year will be approved at the last Audit and Governance Committee of each municipal year;
- c) notes the contents of the member's training and development schedule for 2020/21, at Appendix B;
- d) approves the draft new members' induction booklet 2021 as set out in Appendix C; and
- e) agrees the content of the new members' induction booklet is reviewed by the Audit and Governance Committee every three years.

## **10. INTERNAL AUDIT PROGRESS REPORT**

The Committee considered a report by the Head of Finance and Audit providing assurances arising from the Internal Audit work and updating the Committee on the progress being made in delivering the audit plans.

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

**11. ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE**

The Committee considered the Annual Report from the Head of Finance and Audit on the work of the Audit and Governance Committee.

RESOLVED that the Audit and Governance Committee: -

- a) notes the contents of the report; and
- b) submits the revised work programme for 2021/22, as shown in Appendix C, to Council for endorsement.

(The meeting started at 6.00 pm  
and ended at 7.07 pm).

# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 12 July 2021

**Report of:** Deputy Chief Executive Officer

**Subject:** EXTERNAL AUDIT ANNUAL PLAN AND FEE

#### SUMMARY

This report brings to members' attention the proposed Audit Plan from the Council's external auditors, Ernst & Young. The plan, attached as Appendix A, provides the Committee with a basis to review the proposed audit approach and scope of work for the 2020/21 audit (carried out in 2021/22) and to ensure that the work is in line with members' expectations.

Appendix A also brings to members' attention the Planned Fee for the 2020/21 audit work, as set out on p33 of Appendix A. This currently indicates another proposed increase in the fees from those submitted in the tender as part of the procurement organised by Public Sector Audit Appointments (PSAA) in 2017/18. This is to reflect extra work they are being expected to do.

*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.*
- d) to advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.*

## RECOMMENDATION

It is recommended that the Committee approves the 2020/21 Audit Plan, attached as Appendix A to this report.

### **Appendices:**

Appendix A – Audit Planning Report for the year ending 31 March 2021 - as at June 2021

**Background Papers:** None

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

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

Fareham Borough  
Council  
Audit planning report  
Year ended 31 March 2021

June 2021



Members of the Audit and Governance Committee

29 June 2021

Fareham Borough Council  
Civic Offices  
Civic Way  
Hampshire  
PO16 7AZ

Dear Audit and Governance Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide you with a basis to review our approach and scope for the 2020/21 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice, the auditing standards and other professional requirements. It also aims to ensure that our audit is aligned with the Committee's service expectations.

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

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

We welcome the opportunity to discuss this report with you on 12 July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter  
For and on behalf of Ernst & Young LLP

# Contents



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



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# Overview of our 2020/21 audit strategy



# Overview of our 2020/21 audit strategy

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

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus.	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus.	As identified in ISA240, 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 identify and respond to this risk on every engagement.
Valuation of Investment Property	Significant risk	No change in risk or focus (since 2019/20 updated plan)	The fair value of Investment Properties represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Since late March 2020 in the UK, Covid-19 has 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. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents and seek to negotiate rent reductions as the tenants can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations.

# Overview of our 2020/21 audit strategy

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

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Land and Buildings	Inherent risk	No change in risk or focus.	The value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
NDR Appeals Provision Valuation	Inherent risk	No change in risk or focus.	The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements.
Pension Liability Valuation	Inherent risk	No change in risk or focus.	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

# Overview of our 2020/21 audit strategy

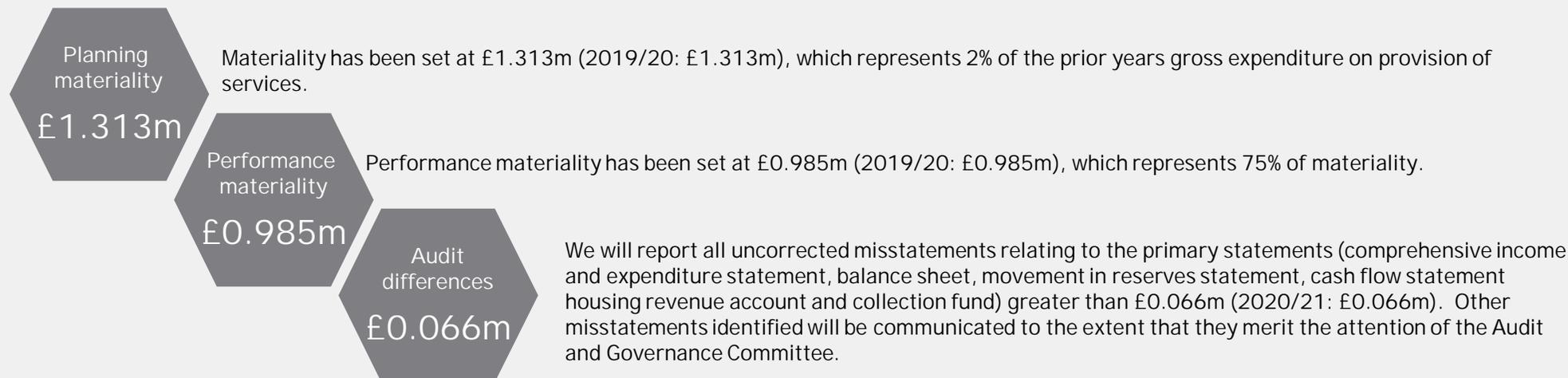
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Going Concern disclosures	Area of audit focus	No change in risk or focus (since updated plan)	<p>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 supporting cashflow forecast, is thorough and appropriately comprehensive. The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment, and in particular highlights any material uncertainties it has identified.</p> <p>In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit and we need to ensure we comply fully with the requirements of the revised standard.</p>
Accounting for Covid-19 Government Grants	Inherent risk	New area of focus for 20/21	<p>Following the Covid-19 pandemic outbreak in March 2020 Local Authorities have received a significant level of government funding in the relation to Covid-19. There is a need for the Council to ensure that it has recognised and accounted for these appropriately, taking into account any associated restrictions and conditions.</p>

# Overview of our 2020/21 audit strategy

## Materiality



# Overview of our 2020/21 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with our audit opinion on the Council's financial statements for 2020/21. We are also required to report a commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on value for money below and in Section 03, highlighting the changes included in the NAO's Code of Audit Practice 2020.

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

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

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

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

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

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to assess independently the risks associated with providing an audit opinion, and to undertake appropriate procedures in response to that assessment. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditor's assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit, with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these are relevant in the context of Fareham Borough Council's audit, we will discuss these with management as to the impact on the scale fee.

Due to a backlog of work, predominantly as a result of Covid-19 impacting our 2019/20 audits, we have not been able to schedule an efficient high quality audit to meet the 30 September date noted in the Accounts and Audit (Amendment) Regulations 2021.

We have therefore agreed with the Council that our year-end execution work will commence in October 2021.

## Overview of our 2020/21 audit strategy (continued)

### Value for money conclusion

One of the main changes in the NAO's 2020 Code is in relation to the value for money conclusion. We include details in Section 03 but in summary:

- We are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on VFM and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will be required to provide a commentary on the Council's arrangements against three reporting criteria:
  - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
  - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
  - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- Within the audit opinion we will still only report by exception where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- The commentary on arrangements will be included in a new Auditor's Annual Report which we will be required to issue at a date to be determined by the NAO.

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### Fees

We remain in discussion with PSAA about our proposed increase to the scale fee which we consider to be appropriate to deliver a Code compliant audit. We include in Section 09, our current view of the fees required to carry out the 2020/21 audit. We will update the Committee on any determinations by PSAA on fees.

We would like to recognise the constructive discussions we have had with both the Deputy Chief Executive Officer and the Audit and Governance Committee on our proposals to increase the scale fee for the Council. Whilst we did not reach agreement, management recognise many of these pressures and can see how they are reflected in the changes in the audit work, but management's view is that this is a decision for PSAA.



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# 02 Audit risks



## Our response to significant risks

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

Inappropriate capitalisation of revenue expenditure

### What is the risk?

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

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 will we do?

Our approach will focus on:

- Journals testing – we will use our testing of journals to identify transactions moved from revenue to capital.
- For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. Based on our work at the planning stage of the audit we do not expect there to be material REFCUS in the year

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. We are focussing our testing on capital additions (£7.8m in 2019/20) and potentially on revenue expenditure funded by capital under statute (REFCUS) if material in 2020/21.

## Our response to significant 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 will we do?

We will undertake our standard procedures to address fraud risk, which include:

- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements

## Our response to significant risks

<p>Valuation of Investment Property</p>	<p><b>What is the risk?</b></p> <p>The fair value of Investment Properties represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p><b>What will we do?</b></p> <p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>• Considering 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;</li> <li>• Sample testing key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer;</li> <li>• Testing that accounting entries have been correctly processed in the financial statements.</li> </ul>
<p><b>Financial statement impact</b></p> <p>The fair value of investment properties in 19/20 was £64m</p>	<p>Since late March 2020 in the UK, Covid-19 has 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. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents and seek to negotiate rent reductions as the tenants can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations.</p>	<p>Additional Covid-19 procedures in response to our risk include:</p> <ul style="list-style-type: none"> <li>• Ensure the appropriate disclosure has been made in the accounts concerning any material uncertainty, including in Note 9 'Assumptions made about the future and other sources of estimation uncertainty', if such caveats are included in the valuer's report;</li> <li>• Obtain input from EY Real Estates, our internal specialists on asset valuations for Investment Properties, including inputs on market sentiment and how it has been reflected in the estimated rental values/yields.</li> </ul> <p>There are also additional procedures we need to perform to comply with the new International Standard of Auditing in relation to estimates which is applicable for this year end (ISA 540), see Appendix D on page 44.</p>

## Other areas of audit focus

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

### What is the risk/area of focus?

#### Pension Liability Valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £62.349m.

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 will we do?

We will:

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

We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

As with valuation of investment property, there are also additional procedures we need to perform to comply with the new International Standard of Auditing in relation to estimates which is applicable for this year end (ISA 540), see Appendix D on page 44.

## Other areas of audit focus

### What is the risk/area of focus?

#### Valuation of Land and Buildings

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

#### NNDR Appeals Provision

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

### What will we do?

#### We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; and
- Test accounting entries have been correctly processed in the financial statements.
- As with valuation of investment property, there are also additional procedures we need to perform to comply with the new International Standard of Auditing in relation to estimates which is applicable for this year end (ISA 540), see Appendix D on page 44.

#### We will:

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

## Other areas of audit focus

### What is the risk/area of focus?

#### Going Concern disclosures

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 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.

#### Accounting for Covid-19 Government Grant

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 will we do?

We will:

- Challenge management's identification of events or conditions impacting going concern.
- Test management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Review 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.
- Undertake a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenge the disclosure made in the accounts in respect of going concern and any material uncertainties.

There are also additional procedures we will need to perform to comply with the new International Standard of Auditing in relation to Going Concern which is applicable for this year end (ISA 570), see Appendix D on page 45.

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

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

We have asked the finance team to provide its assessment of grant accounting before it prepares the statements so that we can provide an early view on its proposed accounting treatment. We will also seek to ensure that grants, for example the local government income compensation scheme for lost sales, fees and charges, have been claimed and recognised in accordance with scheme rules.



03

# Value for Money Risks





# Value for money

## The Council's responsibilities for value for money

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.

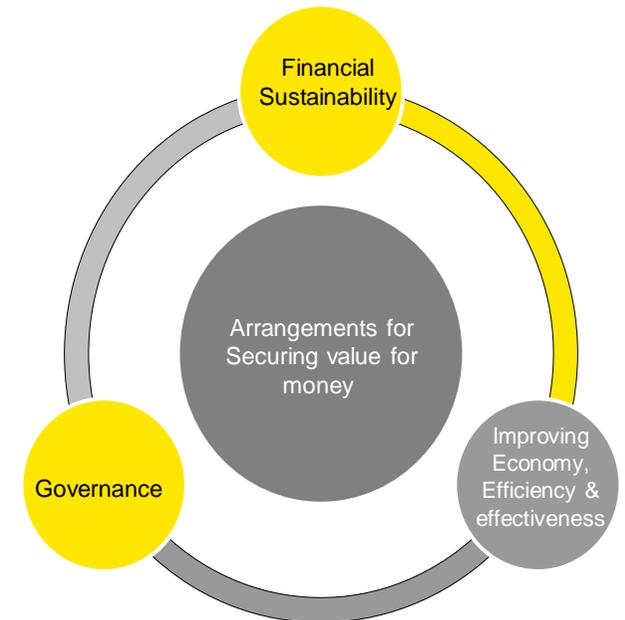
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead, 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.





## Value for money (continued)

### Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as OfSTED) and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.



## Value for money (continued)

### Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit and Governance Committee.

### Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

### Status of our 2020/21 VFM planning

Our assessment for the Council of the risk of significant weaknesses in the arrangements supporting each of the specified reporting criteria is still in progress. Our assessment to date has focused on a combination of:

- Cumulative audit knowledge and experience.
- Review of Council committee reports,
- Review of other documentary evidence available on the Council's website.
- Consideration of financial and performance reporting and outcomes for the year.
- Regular engagement with Council management.

This work is not yet fully complete, but to date we have not identified a risk of significant weakness.



04

# Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2020/21 has been set at £1.313m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

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

### Key definitions

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

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.985m which represents 75% of planning materiality

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

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



05

## Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

#### 1. Financial statement audit

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

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

#### Procedures required by standards

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

#### Procedures required by the Code

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

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

As outlined in Section 03, 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 and report a commentary on those arrangements.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

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

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

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



06

Audit team



# Audit team

Audit team structure:

Kevin Suter  
Associate Partner\*

Jason Jones  
Manager

Shannon Phillips  
Senior

Specialists (as required)

- EY Real Estates
- Actuaries

\* Key Audit Partner

## Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY Actuaries

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

Page 39 We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

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



07

Audit timeline





# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion

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

Audit phase	Timetable	Audit committee timetable	Deliverables
	March		
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	March	Audit and Governance Committee	None
Testing of routine processes and controls Interim audit testing	April		
	May		
	June/July	Audit and Governance Committee	Audit Planning Report
	August/September		
Year end audit Audit Completion procedures	October/November		
	December	Audit and Governance Committee	Audit Results Report Audit opinions and completion certificates Annual Auditor's Report including commentary on VFM





08

Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

#### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.

#### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

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

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

## Relationships, services and related threats and safeguards

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

### Overall Assessment

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

### Self interest threats

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

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

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

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

### Self review threats

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

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

### Management threats

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

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

## Relationships, services and related threats and safeguards

### Other threats

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

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

## Other communications

### EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020>



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09

Appendices



## Fees

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

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

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
PSAA Scale Fee	37,137	37,137	37,137
Additional work required for going concern and Covid-19 considerations (1)	4,000	N/A	4,077
Additional work required for PPE valuation (1)	6,000	N/A	7,397
Additional specific one-off work in relation to Pension Fund IAS 19 data submission procedures undertaken for admitted bodies (1)	-	N/A	801
Additional work on aspects of housing benefit income and expenditure which would previously have been performed as part of HB certification (1)	382	N/A	382
<i>Scale fee plus in-year variations</i>	<i>47,519</i>	<i>37,137</i>	<i>49,794</i>
Scale fee rebasing (2)	19,921	19,921	19,921
<b>Total fees</b>	<b>67,440</b>	<b>57,058</b>	<b>69,715</b>

*All fees exclude VAT*

Notes:

(1) The 2019/20 Code work includes an additional fee of £12,657, for additional work undertaken in relation to going concern, property valuations, pension valuations and housing benefit income and expenditure. This additional fee is subject to approval from PSAA. For 2020/21 we have included an estimate of this fee where we expect similar additional work to be performed.

(2) We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. This was communicated in our 2019/20 Annual Audit Letter.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The production of materially accurate draft accounts
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

The outline timetable on page 31 is contingent on the above factors

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

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

## Appendix B

# Required communications with the Audit Committee

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



Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – June 2021
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report – December 2021

## Required communications with the Audit Committee (continued)

Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report – December 2021
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report – December 2021
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>	Audit results report – December 2021
Related parties	<ul style="list-style-type: none"> <li>• Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report – December 2021

## Required communications with the Audit Committee (continued)

Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Planning Report – June 2021</p> <p>Audit Results Report – December 2021</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<p>Audit results report – December 2021</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>• 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</li> </ul>	<p>Audit results report – December 2021</p>
Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	<p>Audit results report – December 2021</p>

## Appendix B

# Required communications with the Audit Committee (continued)

### Our Reporting to you

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

## Additional audit information

### Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

## Additional audit information (continued)

### Purpose and evaluation of materiality

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

Materiality determines:

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

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

# Impact of changes in auditing standards

## ISA 540 (Accounting Estimates)

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA 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 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 expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.

## Impact of changes in auditing standards - continued

### ISA 570 (Going Concern)

The FRC has issued significant revisions to ISA (UK) 570 - Going Concern. This follows several well-publicised cases of perceived audit failure, such as Carillion and BHS. In these cases, the auditors failed to raise concerns in the auditor's report about the viability of the companies, despite them collapsing shortly after.

The changes increase the work required by auditors on going concern. As a result, we will be requesting greater evidence on going concern to meet these requirements, including, in all cases, management's assessment of the entity's ability to continue as a going concern for a period of at least a year from certification.

#### Key changes

The revised ISA 570 shifts the burden of responsibility on to an auditor to seek specific evidence over whether an entity is a going concern as opposed to reach a conclusion based on the evidence obtained throughout the audit. This has meant the following changes:

- A new requirement to design and perform specific risk assessment procedures to identify whether a material uncertainty related to going concern exists;
- Specified procedures that the audit team must carry out to evaluate management's assessment regardless of whether there are events or conditions that cast significant doubt on going concern;
- Introduction of the concept of management bias in respect of going concern;
- A requirement for more explicit conclusions and an explanation of work performed on going concern within the audit opinion / report.

The ISA does acknowledge that the level of detail in management's assessment and the auditor's evaluation of this assessment may be lower where this is appropriate in the circumstances. This may be the case where the entity is established in statute and there is a statutory mechanism by which it receives funding. The fact that an entity is wholly funded by grant in aid or other support from the government is not however in itself sufficient evidence that the entity is a going concern.

#### Evidence requirements

The changes to ISA 570 could increase the evidence requests made by audit teams. We will require written assessments supported, where appropriate, by cash flow forecasts and budgets for a period of at least 12 months from Approval of the Financial Statements. These will need to be realistic and based on up-to-date information with assumptions appropriate to the entity's circumstances. We may ask for evidence to support the assumptions made and sensitivity analysis.

Where the assessment involves continued financial support from a third party, we will likely need written third party evidence of that except where such support is statutory.

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# FAREHAM

## BOROUGH COUNCIL

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

**Date:** 12 July 2021  
**Report of:** Deputy Chief Executive Officer  
**Subject:** COUNTER FRAUD ANNUAL REPORT

#### **SUMMARY**

This report updates the Committee on the counter fraud work carried out in the last 12 months including the numbers and outcomes of fraud cases.

The Audit and Governance Committee's areas of responsibility for Counter Fraud include:  
a) to review the assessment of fraud risks and potential harm to the council from fraud and corruption; and b) to monitor the counter-fraud strategy, actions and resources.

#### **RECOMMENDATION**

It is recommended that the Audit and Governance Committee note the contents of the report.

## INTRODUCTION

1. This report provides an update of any actions taken in the last 12 months in support of our Anti-Fraud and Corruption Policy. It also includes details of the cases of fraud that have been investigated.

## ACTIVITY SINCE THE LAST REPORT

### Strategic Actions

2. **Investigation of Housing Fraud/Council Tax/Council Tax Support:** Due to Covid restrictions, the fraud investigator has been mainly seconded to the Finance team since April 2020 to assist with the prevention of fraud from the Business Grants schemes introduced by the Chancellor specifically for Covid purposes. Details of this fraud work is covered later in the report.
3. **Joint working with the DWP:** The joint working arrangements ceased immediately upon lockdown in March 2020 and all DWP investigators were seconded to the Universal Credit team or dealing with telephone interviews. Investigations within DWP have still not yet commenced which has held up all our current outstanding investigations with them.
4. During this last year, 12 cases had been accepted for joint working and work had commenced, but these cases were effectively put on hold. The Council Investigations officer continued to work on these cases to maintain up to date evidence in preparation for work to recommence. During this time, 2 cases were closed as it had become apparent that no fraud was being committed.
5. The Council Investigations Officer continued to conduct some investigation work and a further 10 cases have been identified as requiring joint working and invitations continued to be sent to the DWP. However, the DWP have passed all new referrals to their Compliance Department and to date it has not been possible to gain confirmation of how many cases have been opened or dealt with and closed.
6. The Council Investigations Officer is planning three interviews under caution for non-residency and sub-letting cases which have been on hold for some time and which all potentially involve recovery of properties. To date it is unknown whether a DWP investigator will be made available to participate in these interviews or whether findings will have to be sent to a DWP Benefit Decision Maker.

### Specific Areas of Fraud

7. **Business Rates Grants:** As highlighted last year, there has been a new stream of counter fraud work starting in the latter part of 2019/20. The Government announced various schemes to give financial help to businesses and individuals financially hit by the pandemic.
8. As at 01/07/2021 the Council has been involved in 30 business grants and relief schemes and over £66million has been awarded or paid out.

9. Due to the fraud risks inherent in the grants scheme, a team of officers, including all the counter fraud staff, were redeployed onto the Grant scheme projects and a number of counter fraud measures were employed in the processing of applications including:
- Checks against the eligibility criteria
  - Due diligence checks regarding the applicant's identify and status, including use of the government's Spotlight tool
  - Data analysis to identify duplicate and contradictory applications
  - Independent verification of the bank account details before payment
10. The Council has also been required to report frequently to the government on the due diligence work being carried out and the number of attempted and actual frauds being identified.
11. The fraud statistics for the Government grant schemes to 31/03/21 are summarised in the table. These only relate to the Spring/Summer grant schemes which ended in September 2020. The figures do not include the number of duplicate applications that were intercepted (approximately 300).

#### **Attempted Fraud and Fraudulent Grant claims as at 31/03/21**

Type of Grant	No. of Attempted Fraud Claims	Value of attempted fraud Claims (£)	No. of Fraudulent Claims	Value of Fraudulent Claims (£)	No. of fraudulent claims recovered	Value of fraudulent claims recovered (£)
Small Business	8	80,000	3	30,000	1	10,000
Retail, Hospitality and Leisure	12	210,000	2	50,000	2	48,429
Local Authority Discretionary	2	10,000	0	0	0	0
<b>Totals</b>	<b>22</b>	<b>300,000</b>	<b>5</b>	<b>80,000</b>	<b>3</b>	<b>58,429</b>

12. The checking procedures covering all Business Grant Schemes up until 31/03/21 identified 22 cases of attempted fraud preventing payment of £300,000. A further 5 claims were identified as fraudulent and payments made totalled £80,000. The recovery of £58,429 had been achieved by the end of March 2021.

This consisted of:

- a £10,000 grant that was obtained by an applicant who was no longer the liable party for the business, this was repaid in full by the applicant;
- a £25,000 grant that was part of a national fraud that was reclaimed from the beneficiary's account after the Authority was alerted by the fraud team at their own bank;

- a £25,000 grant that was obtained for an empty property by a business not in operation as at 11/03/20 in accordance with the scheme policy. £23,489 had been reclaimed by the authority with the remaining balance of £1,511 being collected after 31/03/21.
13. Sundry debtor accounts have been sent to the applicants in respect of the outstanding grants representing 2 x £10,000 and recovery action is ongoing. Both fraudulent applications appear to be for businesses that were no longer operating from the address given as at 11/03/20.
  14. **Council Tax Single Residents Discount (SRD) Review:** In February 2020, a Single Resident Discount review was carried as part of the annual billing process, residents in receipt of the discount were asked to confirm their continued entitlement via an online portal or by returning the questionnaire in the post. Where the questionnaire is not returned, officers will ultimately remove the discount entitlement.
  15. Most responses have been received, but due to the COVID pandemic and resources being diverted to other priorities, officers have not been able to complete the canvass although the team have now recommenced reviewing the returns received and not received and dealing with any cases where the discount no longer applies. The outcome of the review will be reported in next year's report.

## **INVESTIGATION REFERRALS AND OUTCOMES**

16. The information provided in [Appendix C](#) shows the number of fraud and irregularity cases received and investigated in the last financial year, and the information required to be published on our website in accordance with the Transparency Code. There was a total of 746 cases investigated, leading to 55 cases of fraud or irregularity being found. These amounted to a total value of £493,574 of wither attempted or actual fraud. The largest area of fraud found by value was for business grant fraud (£380,000) which is why this has been the focus of the counter fraud resources this year.

### **Whistleblowing and Anti-Bribery**

17. There was 1 case raised by employees in the last 12 months which has been investigated and no employee has felt it necessary to raise concerns outside the organisation.
18. There was also a case of attempted bribery of a Council employee which was handled under the Council's Anti-Bribery policy.

### **Sanctions**

19. There have been no criminal sanctions awarded following any investigation where Fareham Borough Council was the lead investigating party because of the Covid pandemic preventing normal investigation work.
20. There have been no administrative penalties authorised by Fareham Borough

Council on cases the DWP investigated, because of the Covid pandemic. However, two civil penalties totally £140 were issued for Council Tax fraud.

21. One Fareham Borough Council property has been recovered in the year and a transfer to a bigger property prevented. Two applications for homelessness assistance have also been declined as further checks identified that the applicants already owned a property.

## NATIONAL FRAUD INITIATIVE

22. The National Fraud Initiative (NFI) is a mandatory data matching exercise organised by the Cabinet Office. All data sets requested since the last report have been submitted on time. There have been 4 releases of new matches since the last report which fall into the 2020/21 financial year, resulting in an additional 1,320 matches to review.
23. The table below shows the progress made on clearing all matches since the last report. During the year the teams have managed to clear **430** of the old and new matches leaving 5,206 still to review.

Progress made on clearance of NFI matches					
Fraud category	Number of Matches as at end of last year	Number of Matches now including all releases up to 31/3/21	Total closed as per last year	Total closed as per this year (as at 30/6/21)	Matches left to clear as at 01/7/2021
<b>Matches from the 2018/19 2-Yearly Main Exercise (received from Jan 2019)</b>					
Benefits	481	<b>481</b>	392	<b>481</b>	-
Council Tax Reduction	516	<b>516</b>	374	<b>516</b>	-
Housing Tenants	226	<b>226</b>	58	<b>223</b>	3
Waiting List	91	<b>91</b>	58	<b>90</b>	1
Right to Buy	-	-	-	-	-
Payroll	17	<b>17</b>	8	<b>10</b>	7
Procurement	1	<b>1</b>	1	<b>1</b>	-
Residents Parking	2	<b>2</b>	2	<b>2</b>	-
Creditors	294	<b>294</b>	36	<b>36</b>	258
sub-total	1,628	<b>1,628</b>	929	<b>1,359</b>	<b>269</b>
<b>Matches from the 2020/21 2-Yearly Main Exercise (received from Jan 2021 to Feb 2021)</b>					
Benefits	New	<b>21</b>	New	<b>20</b>	1
Council Tax Reduction	New	<b>148</b>	New	<b>148</b>	-
Housing Tenants	New	<b>41</b>	New	<b>10</b>	31
Waiting List	New	<b>56</b>	New	<b>4</b>	52
Right to Buy	New	<b>1</b>	New	-	1
Payroll	New	<b>12</b>	New	-	12
Procurement	New	<b>3</b>	New	-	3
Grant Recipients	New	-	New	-	-
Creditors	New	<b>282</b>	New	-	282
sub-total	-	<b>564</b>	-	<b>182</b>	<b>382</b>
<b>Matches from the Recheck Annual Exercises 2019/20</b>					
Council Tax	4,302	<b>4,302</b>	121	<b>121</b>	<b>4,181</b>
<b>Matches from the Recheck Annual Exercises 2020/21</b>					
Council Tax	New	<b>756</b>	New	-	<b>756</b>
<b>Total</b>	5,930	<b>6,686</b>	1,050	<b>1,480</b>	5,206

24. The table below shows the number and value of fraud cases arising from the clearance of NFI matches in the last year. More detail of how much fraud and error has been identified from each NFI exercise is provided in [Appendix A](#). Any frauds that were being pursued by FBC will have been included in the overall statistics in [Appendix C](#).

#### Fraud Cases Identified from NFI

Data Set	Nature of Fraud	Date of Committee Report					
		March 2021		Sept 2020		July 2019	
		Number	Value	Number	Value	Number	Value
Housing Benefits and CTR	Undeclared pension					1	£1,902
	Undeclared employment			1	£2,764		
	Benefits claimed on 2 properties					1	£9,812
Council Tax	Undeclared second adult living at property			28	£22,139	35	£30,716
Waiting List	<i>Data no longer available</i>	1	£3,240	-	-	-	-
<b>TOTAL</b>		<b>1</b>	<b>£3,240</b>	<b>29</b>	<b>£24,903</b>	<b>37</b>	<b>£42,430</b>

#### USE OF LEGAL POWERS

25. Key powers available to investigators for the detection and prevention of fraud are:
- Powers of Surveillance, using a Covert Human Intelligence Source (CHIS), or obtaining Communications data designated by the Regulation of Investigatory Powers Act 2000 (RIPA) and the Investigatory Powers Act 2016.
  - Authorised Officer powers to obtain information from specified parties including employers, utilities companies and banks under the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013 Regulations and the Prevention of Social Housing Fraud (Power to require Information) (England) regulations 2014
26. There are several safeguards in the Council processes to make sure that investigation powers are only used when legal, proportionate and necessary. These include:
- a) All RIPA applications are required to be authorised by a trained designated officer in the Council.
  - b) All RIPA authorisations for surveillance and CHIS are presented to a magistrate for approval.
  - c) All RIPA applications for communications data are submitted to the National Anti-Fraud Network (NAFN) where they are reviewed and authorised by a NAFN officer before the request for information is issued.
  - d) All approved RIPA authorisations are logged on a central register which flags up when they expire. A formal cancellation form is completed for every application.

- e) The Council is required to complete annual returns on the use of the RIPA powers and is subject to an inspection every 3 years from the Investigatory Powers Commissioner's Office (IPCO). The last inspection in 2018 concluded that 'our usage and standards are an example to all'.
  - f) The National Anti-Fraud Network (NAFN) is subject to an annual inspection of the Interception of Communications Commissioner's Office (IOCCO), which may cover applications made by Fareham Borough Council depending on the sample they select to test.
  - g) Most Authorised Officer powers are also executed via application to the National Anti-Fraud Network (NAFN). They are reviewed and authorised by a NAFN officer before the request for information is issued.
27. We also report every year to this committee how many times we use these powers, as follows and publish the frequency of our use of authorised officer powers as part of our Transparency data.

**Usage in 2020/21**

28. There has been 1 authorisation granted under the Regulation of Investigatory Powers Act 2000 (RIPA) between 1 April 2020 and 31 March 2021 as summarised in [Appendix B](#). This work was undertaken during August and September 2020 whilst the Business Grants work was decreased and enabled the investigation into Benefit fraud to progress.
29. There have been 278 uses of Authorised Officer powers during investigations in the last 12 months, as detailed in the table below. This compares to 400 last year and will be due to the secondment to Business Rates Grant work.

Authorised Officer powers used 1 April 2020 and 31 March 2021	
Prevention of Social Housing Fraud Act	Council Tax Reduction Regulations & Data Protection Act exemptions
9	269

**RISK ASSESSMENT**

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

**Appendices:**

Appendix A – Cumulative Findings from National Fraud Initiative Exercises

Appendix B - Authorisations for use of RIPA

Appendix C - Annual Fraud Case Figures 2020/21

**Background Papers:** None

**Reference Papers:** None

**Enquiries:** For further information on this report please contact Elaine Hammell (Ext 4344) or Andrea Kingston (Ext 4618).

## Cumulative Findings from National Fraud Initiative Exercises

Year of Exercise*	Type	No. of Matches	No. of Fraud Cases found	No. of Errors found	Value of Fraud & Error cases
2020/21	Council Tax	756	0	3	£4,680
<b>2020/21</b>	<b>Full Exercise</b>	<b>636</b>	<b>4</b>	<b>29</b>	<b>£33,075</b>
2019/20	Council Tax	4,302	2	15	£35,389
<b>2018/19</b>	<b>Full Exercise</b>	<b>1,628</b>	<b>4</b>	<b>29</b>	<b>£33,075</b>
<b>2017/18</b>	<b>Council Tax</b>	<b>3,577</b>	<b>16</b>	<b>8</b>	<b>£17,466</b>
<b>2016/17 &amp; 2017/18</b>	<b>Full Exercise &amp; Extra matches</b>	<b>1,624</b>	<b>1</b>	<b>8</b>	<b>£3,563</b>
<b>2016/17</b>	<b>Council Tax</b>	<b>669</b>	<b>25</b>	<b>32</b>	<b>£24,176</b>
<b>2015/16</b>	<b>Waiting List</b>	<b>42</b>	<b>0</b>	<b>7</b>	<b>0</b>
<b>2014/15+2015/16</b>	<b>Full Exercise</b>	<b>994</b>	<b>13</b>	<b>12</b>	<b>£15,901</b>
<b>2014/15+2015/16</b>	<b>Council Tax</b>	<b>1,054</b>	<b>6</b>	<b>0</b>	<b>£3,149</b>
<b>2014/15</b>	<b>Student Loans</b>	<b>19</b>	<b>1</b>	<b>0</b>	<b>£1,258</b>
<b>2013/14</b>	<b>Council Tax</b>	<b>553</b>	<b>34</b>	<b>4</b>	<b>£15,108</b>
<b>2012/13</b>	<b>Full Exercise</b>	<b>1,333</b>	<b>13</b>	<b>14</b>	<b>£49,562</b>
<b>2011/12</b>	<b>Council Tax</b>	<b>484</b>	<b>21</b>	<b>2</b>	<b>£13,034</b>
<b>2010/11</b>	<b>Full Exercise</b>	<b>1,760</b>	<b>335<sup>#</sup></b>	<b>13</b>	<b>£26,356</b>
<b>2009/10</b>	<b>Council Tax</b>	<b>1,424</b>	<b>43</b>	<b>0</b>	<b>£18,648</b>
<b>2008/09</b>	<b>Full Exercise</b>	<b>1,779</b>	<b>212<sup>#</sup></b>	<b>3</b>	<b>£54,978</b>
<b>2008/09</b>	<b>Council Tax</b>	<b>747</b>	<b>130</b>	<b>3</b>	<b>£87,920</b>

\*Compilation of the results of NFI started to be compiled in this way in 2008/09. Those exercises in bold have been completed so there will be no further findings.

# Included match of concessionary travel permits against deceased database with no monetary value used.

**Appendix B**

**Authorisations for use of RIPA (April 20 to March 21)**

<b>Ref No</b>	<b>Date Authorised Internally</b>	<b>Authorising Officer</b>	<b>Suspected Offence</b>	<b>Investigation power used</b>	<b>Date Authorised by a Magistrate</b>	<b>Duration of authorisation (in days)</b>	<b>Outcome for the Investigation</b>
1	27/8/2020	Head of Housing and Benefits	Tenancy Fraud Council Tax Support Fraud Universal Credit Fraud  On the non-residency of FBC owned social housing.	Surveillance	3/9/2020	50	Evidence obtained that crime or disorder MAY BE occurring, but investigation suspended due to lockdown x 2

### Appendix C - Annual Fraud Case Figures 2020/21

	2020/21			2019/20		
	Number of Fraud Cases			Number of Fraud Cases		
Type of Fraud	Investigated	Fraud Concluded	Value	Investigated	Fraud Concluded	Value
Housing Benefit and Council Tax Benefit	120	3	£15,532	321	3	£15,532
Council Tax Support	304	3	£2,793	336	4	£5,557
Council Tax	8	5	£2,520	462	32	£24,659
Business Grants	64	26	£380,000			
Housing	233	7	£3,726	20	7	£0
Procurement	-	-	£0	37	-	-
Permits and Passes	-	-	£0	3	2	£0
Other				-	-	-
<b>SUB-TOTAL</b>	<b>729</b>	<b>44</b>	<b>£404,571</b>	<b>1,179</b>	<b>48</b>	<b>£45,748</b>
Other Irregularity	Investigated	Irreg Concluded	Value	Investigated	Irreg Concluded	Value
Employee and Payroll	15	9	£0	15	14	£0
Finance and Insurance	2	2	£89,003	8	7	£15
Other e.g. abuse of position				-	-	-
<b>SUB-TOTAL</b>	<b>17</b>	<b>11</b>	<b>£89,003</b>	<b>23</b>	<b>21</b>	<b>£15</b>
<b>TOTAL</b>	<b>746</b>	<b>55</b>	<b>£493,574</b>	<b>1,202</b>	<b>69</b>	<b>£45,763</b>
<b>Sanctions and Redress</b>						
Administrative Penalties levied			£0			£0
Council Tax Civil Penalties			£140			£140
Housing Benefit recovered			£23,069			£52,447
Business Grants Returned			£58,429			£20
Parking charges repaid						£487
POCA Confiscation						-
<b>Total</b>			<b>£81,638</b>			<b>£53,094</b>
Housing properties recovered / prevented		2			3	
Homeless Assistance prevented		2				
Non FBC Fraud found (DWP benefits)		1	£6,895		4	£30,860



# FAREHAM

## BOROUGH COUNCIL

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

**Date:** 12 July 2021  
**Report of:** Deputy Chief Executive Officer  
**Subject:** ANNUAL GOVERNANCE STATEMENT

#### **SUMMARY**

This report brings the 2020/21 Annual Governance Statement for member approval before publishing with the Statement of Accounts.

The Audit and Governance Committee's areas of responsibility for the Annual Governance Statement include:

- a) To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council;
- b) To review the Council's Annual Governance Statement, prior to approval, and consider whether it properly reflects the risk environment and supporting assurances.

#### **RECOMMENDATION**

It is recommended that the Committee: -

- a) approve the Annual Governance Statement for 2020/21, as attached as Appendix C of the report; and
- b) identify any changes required.

## INTRODUCTION

1. The Accounts and Audit Regulations 2015 require the Council to publish a statement on its systems of internal control as follows:

*'The relevant authority must ensure that it has a sound system of internal control which:*

*a) facilitates the effective exercise of that body's functions and the achievement of its aims and objectives:*

*b) ensures that the financial and operational management of the authority is effective; and*

*c) includes effective arrangements for the management of risk.'*

*The relevant authority must, each financial year - conduct a review of the effectiveness of the system of internal control... and prepare an annual governance statement. ... it must consider the findings of the review... by a committee or by members of the authority meeting as a whole; and approve the annual governance statement prepared...by resolution of a committee or by members of the authority meeting as a whole.*

*The annual governance statement ... must be approved in advance of the relevant authority approving the statement of accounts...and be prepared in accordance with proper practices...'*

2. The 'proper practices' for this obligation are regarded to be the CIPFA/SOLACE publication 'Delivering Good Governance in Local Government, which was last revised in April 2016.
3. This report therefore informs members of the processes that have been used to prepare the Annual Governance Statement (AGS) for 2020/21 as attached as Appendix C, and seeks approval for this to accompany the audited Statement of Accounts for 2020/21 when they are published.

## CHANGES TO THE PROCESS

4. The Governance Framework '*comprises the systems and processes and culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor achievement of the strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services*'. The system of internal control '*is a significant part of the framework and is designed to manage risk to a reasonable level*'.
5. The Council has defined its Governance Framework as consisting of 23 components as listed in [Appendix A](#) which is consistent with the 2016 guidance. Two of these are discretionary components which are considered important to this authority.
6. There have been no changes to the required process identified for the 2020/21. However, due to the Covid-19 pandemic the government issued an amendment to the Accounts and Audit Regulations which allows the Statement to be published later than the previous July deadline; and up to 30/09/21.

## **RESPONSIBILITIES OF THIS COMMITTEE**

7. The annual review of the effectiveness of the Council's governance framework and systems of control has now been completed by the officers on the 'Chief Executive's Assurance Group', who have also compiled the action plan for completion. These findings have been fed into the text of the Annual Governance Statement.
8. Member involvement in the process is important to establish corporate ownership of the governance framework. The specific role of members in the process is to:-
  - (a) confirm that a robust approach has been taken to review the Council's governance framework and systems of internal control;
  - (b) confirm that the sources of evidence are appropriate and support the Annual Governance Statement; and
  - (c) approve the content of the Statement and action plan or make suggestions for improvement.
9. The final version of the Statement, taking on board members' comments, will then be submitted for endorsement by the Chief Executive Officer and the Leader of the Council before being published.

## **SOURCES OF EVIDENCE**

10. Each of the elements of the framework were reviewed and discussed by the Chief Executive's Assurance Group which consists of the Chief Executive Officer, all the directors and the Head of Finance and Audit. The following additional evidence was also reviewed to support the discussions:
  - Summary of external assurances received in the year (listed in [Appendix B](#)).
  - Review of progress made on the actions included in the previous Annual Governance Statement.
  - Annual cyber security assurances
  - Trends arising from internal audit and finance work in 2020/21.

## **ANNUAL GOVERNANCE STATEMENT**

11. The Annual Governance Statement, as attached as Appendix C, has been drafted in accordance with the CIPFA proper practices guidance. The lists of improvements identified during this review are highlighted on pages 24-25 of the statement. It should be noted that these do not necessarily signify a significant control weakness in the Council's framework but tend more to reflect ideas for improvements to existing processes. In particular, this year they also reflect the impact of the pandemic on the way the Council works.

## **RISK ASSESSMENT**

12. The Annual Governance Statement is a statutory requirement and will be published on the Council's internet site with the Statement of Accounts. It is audited by the Council's external auditors.

## **CONCLUSION**

13. This organisation has defined an appropriate Governance Framework on which to base its Annual Governance Statement. The sources of assurance have been subject to a review to allow the Annual Governance Statement to be drawn up for 2020/21.

### **Appendices:**

[Appendix A](#) – Components of the Fareham BC Governance Framework.

[Appendix B](#) – Sources of External Assurance Reviewed this year

Appendix C – Draft Annual Governance Statement 2020/21 (separate attachment).

**Background Papers:** None

### **Reference Papers:**

CIPFA/ SOLACE - Delivering Good Governance in Local Government - Framework and Guidance 2016

The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404)

### **Enquiries:**

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

## APPENDIX A

### Components of the Fareham BC Governance Framework

Mandatory Elements		
1		<p><b>Openness</b> Documenting a commitment to openness and acting in the public interest</p>
2		<p><b>Communication</b> Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.</p>
3		<p><b>Vision and Outcomes</b> Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.</p>
4		<p><b>Vision and Actions</b> Translating the vision into courses of action for the authority, its partnerships and collaborations.</p>
5		<p><b>Service Quality and Value for Money</b> Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.</p>
6		<p><b>Constitution</b> Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.</p>
7		<p><b>Monitoring Officer</b> Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function.</p>
8		<p><b>Decision Making</b> Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships, information provided to decision makers, and robustness of data quality.</p>
9		<p><b>Scrutiny</b> Ensuring an effective scrutiny function is in place.</p>
10		<p><b>Codes of Conduct</b></p>

		Developing codes of conduct which define standards of behaviour for members and staff and that these codes and policies are communicated effectively.
11		<b>Whistleblowing and Conflicts of Interest</b> Developing policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively
12		<b>Training and Development</b> Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.
13		<b>Head of Paid Service</b> Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function.
14		<b>Laws and Policies</b> Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful.
15		<b>Financial Management</b> Ensuring the authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015) and, where they do not, explain why and how they deliver the same impact.
16		<b>Risk Management</b> Reviewing the effectiveness of the framework for identifying and managing risks and for performance demonstrating clear accountability.
17		<b>Counter Fraud</b> Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).
18		<b>Partnerships and Governance</b> Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the authority's overall governance arrangements.
19		<b>Internal Audit</b> Ensuring the authority's assurance arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact.
20		<b>Audit Committee</b> Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities (2013).

21		<p><b>External Audit</b></p> <p>Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.</p>
<b>Discretionary Elements</b>		
22		<p><b>Emergency Planning</b></p> <p>Ensuring we can respond effectively to an emergency within the borough.</p>
23		<p><b>Business Continuity Management</b></p> <p>Reviewing what disruptions, the Council might face to its service delivery and planning to minimise the impacts should they happen.</p>

**APPENDIX B**

**Sources of External Assurance Reviewed this Year**

<b>Type</b>	<b>Report</b>
<b>External Audit</b>	Annual Audit Letter 2019/20 (January 2021)
	Audit Results Report 2019/20 (January 2021)
	Annual Certification Report 2019/209 (December 2020)
	External Housing Benefit Auditor’s Annual Certification Report (March 2021)
<b>Government Department or Agency</b>	Local Government and Social Ombudsman Report 2019/20 (July 2020)
	Public Service Network Compliance (2019/20)
<b>Other</b>	Hampshire Safeguarding Children Board (HSCB] S11 Audit Letter (January 2021)
	Partnership Coverage by other Audit Teams (PfSH, Project Integra, Eastern Solent Coastal Partnership)
	External quality audit of Building Control Partnership (BCP) by British Standards Institute (BSI) (April 2021)
	Hampshire Insurance Forum – Firsthand Inspection Report(2020-21) Crimson Major Defects reports (2020-21)

**FAREHAM**  
BOROUGH COUNCIL

**Annual Governance  
Statement  
2020/21**

# SCOPE OF RESPONSIBILITY

Fareham Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

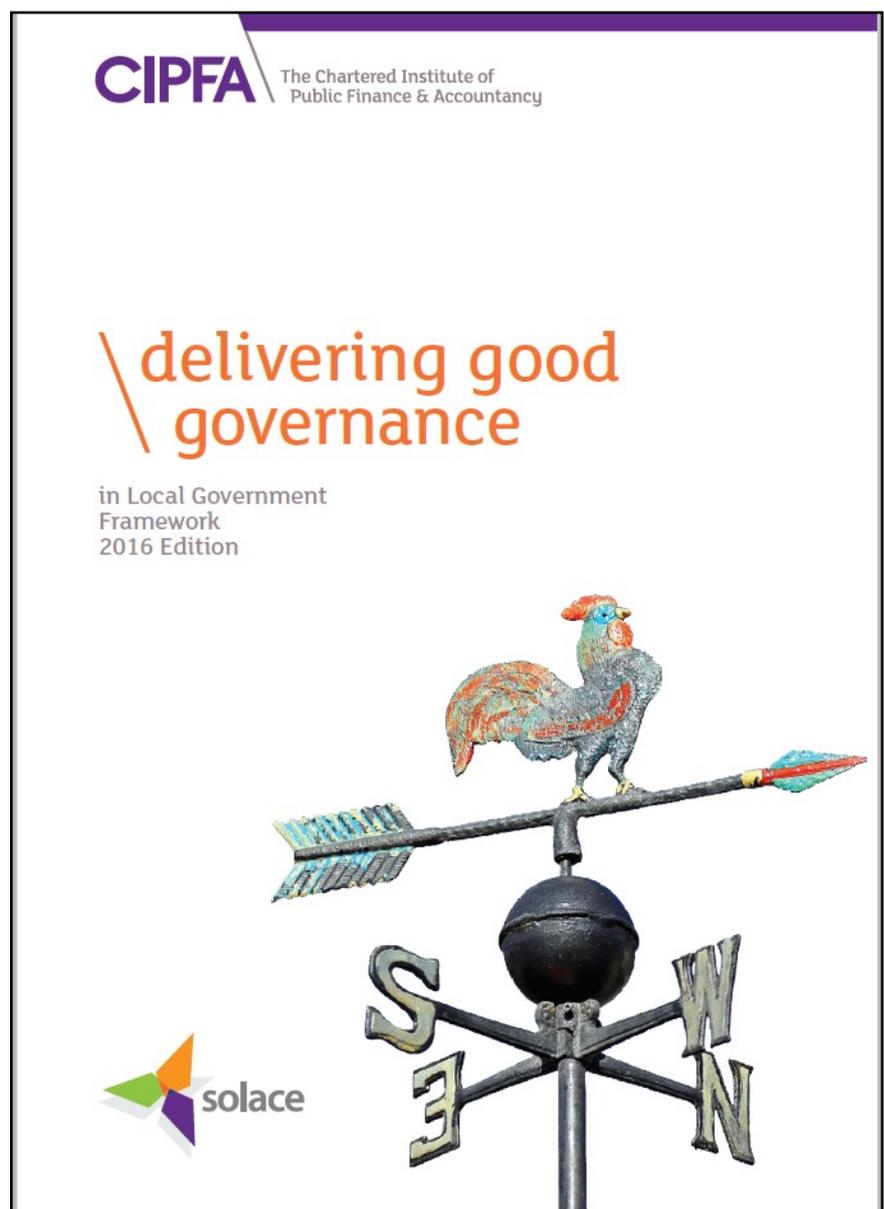
Fareham Borough Council also has a duty under the Local Government Act 1999 to make arrangements securing continuous improvements to the ways in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for putting arrangements in place for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Fareham Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy's framework; *Delivering Good Governance in Local Government*.

A copy of our code is on our website at: [http://www.fareham.gov.uk/about the council/strategies/policydocs.aspx](http://www.fareham.gov.uk/about-the-council/strategies/policydocs.aspx).

This statement explains how Fareham Borough Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, regulation 6 (1b) which requires all relevant authorities to prepare an annual governance statement.



# THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads its communities.

It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process, designed to identify and prioritise the risks to the achievement of the authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Fareham Borough Council for the year ended 31 March 2021 and up to the date of approval of the Statement of Accounts.

The key elements of the systems and processes that comprise Fareham Borough Council's governance arrangements are summarised in this document.

## Openness

The Council seeks to be open and to act in the public's interest. The Community Action Team (CAT) meetings in particular allow open debate on hot topics that come up.

During consultations we aim to be open about the data sources used and how decisions are made.

Meetings are held in the community when there is a need to focus on hot topics of interest to that neighbourhood.

Due to the impact of the pandemic during 2020/21 we suspended CAT meetings and moved to virtual exhibitions. These enabled consultation information to be reviewed online. Subjects covered included, 'Balancing the books' and 'Local plans' .

We have developed a Freedom of Information Publication Scheme which is published on our website along with a Transparency portal which provides financial information and other data about the way the Council is being run.

This can be found on our website at: [http://www.fareham.gov.uk/about\\_the\\_council/financial\\_information/intro.aspx](http://www.fareham.gov.uk/about_the_council/financial_information/intro.aspx)

We also carry out periodic reviews to ensure compliance with the latest requirements of the Transparency Code. The latest review is almost completed.

On top of this we aim to respond to all Freedom of Information requests we receive. We issued 703 such responses during 2020/21.

# Community Communication

The Council's approach to communication is set out in the Communications and Engagement Strategy. This covers how the council seeks to engage with the local community, including those who are harder to reach. The next review is in progress, and a report is due to go to Committee in Autumn 2021/22. The review is considering other ways to maximise engagement, especially for people in the community with no online access.

The Council magazine "Fareham Today" is primarily an online publication which is produced three times a year. Special editions are produced as required to focus on key topics. Households can still request a printed copy or to receive email alerts when an edition is published. More than 900 households have signed up to receive printed copies with a further 455 receiving email alerts.

We continue to see a consistent growth in followers on social media which enables informal, two-way conversations with a wider range of people. When Covid restrictions allow we use the Council Connect stand in the Town Centre plus 43 community notice boards throughout the borough to display a range of material on targeted themes in the year.

During 2020/21 we introduced a business e-newsletter to communicate with local businesses about the pandemic.

During 2021/22 we will be consulting on the need to continue with this newsletter for wider topics going forward.

The Council has a Public Relations, Marketing and Consultation Team who coordinate and undertake community consultations using a variety of methods. The team encourages all departments to seek advice on communication methods to be used for events, information, and when our equality objectives need to be considered, to ensure our approach is consistent.

Communication methods includes use of an e-panel of over 2,200 residents. We also have conversations (called 10/10 surveys) with a sample of residents who use key services, which allows us to obtain feedback about what matters to our customers for future improvements. These were put on hold during 2020/21 but will resume in 2021/22. In 2020/21, more than 2,500 people responded to nine consultations and events. Subjects included business support needs resulting from the pandemic, the naming of the new arts and entertainment venue in Fareham, and the Welbourne planning application and community infrastructure levy charges.

There was no use made of focus groups in the year although they remain a tool to be used when appropriate.



# Council's Visions and Outcomes

Our Corporate Strategy 2017-2023 describes an overall vision for the Borough - **Fareham: a prosperous and attractive place to be**. It sets out our priorities for improvement over a six-year period. This is available on our website at: <http://www.fareham.gov.uk/about-the-council/strategies/keystrategies.aspx>.

During 2020/21 we conducted an annual review of the Corporate Strategy which was approved by Council in December. One significant change was the addition of a new priority *to deliver a programme of work under the opportunities plan to enable the council to generate additional revenue, reduce costs and respond to service pressures and opportunities*.

A project plan has been drawn up to deliver the Strategy priorities which is monitored by the Chief Executive's Management Team twice a year. A process is being developed to quantify the finances needed to deliver the Corporate Priorities set, and feed these into the Medium-Term Financial Strategy. Notable achievements from the Strategy in 2020/21 include :

- ✓ Reviewed our approach to community safety and CCTV resulting in improved CCTV provision and two additional enforcement officers.
- ✓ Planning permission was approved for the remodelling of Ferneham Hall and the name of 'Fareham Live' was agreed.
- ✓ The construction has started of four new industrial business units at Faraday business park at Daedalus.

The Council's purpose and objectives are often

affected by changes in legislation and government. We use the information from our communication channels to put these into local context and identify local priorities. For example, we are now well placed to deliver the priority actions in our local climate change action plan during 2021/22.

Some changes need quicker responses outside of the strategic planning process. For example during the 2021/1, the Council designed and implemented a number of responses to the pandemic including £50million of business grants and reliefs.

A "Big Picture" report covering the hot topics in the Borough and what people are talking about using social media and other sources is usually reviewed every six months by the Chief Executive's Management Team. This includes the results of 10/10 surveys. We also monitor any changes in demographics in the Borough which may influence what our priorities should be.

The Leader of the Council usually chairs discussions at the summer Community Action Team meetings around the Borough each year on the Council's vision, objectives, achievements and priorities. However, these were also placed on hold this year due to the pandemic.

In 2021/22 we plan to resume ticketed events, supplemented by virtual exhibitions - according to current Covid regulations.



# Service Quality and Value for Money

The Council is implementing a programme of cultural change which is leading to better quality and value for money services.

We have been reviewing our services using 'Systems Thinking' which redefines the purpose from the customer's point of view putting them at the heart of everything we do. Reviews result in improved customer experience and faster service delivery. Further training on the approach was rolled out last year for new managers and key officers and checks were carried out to ensure momentum for keeping the customer at the heart of the organisation were continuing. In 2021/22 we will review the current position of past interventions and the progress made.

Internal audit and external inspections provide an independent layer of assurance on the services being provided.

Our Local Service Agreements (LSAs) set out how well we are doing on delivering key services in line with our corporate priorities. They are usually updated annually and reviewed by the Chief Executive's Management Team and the Executive. The LSAs include a list of key performance measures which are monitored during the year including 10/10 survey results where available. This work was on hold during 2020/21 but has now resumed in 2021/22.

The Council has a corporate Opportunities Plan which identifies opportunities for income generation and cost reduction to support the next five year Medium-Term Finance Strategy. Additional resources have been allocated to ensure that this is achievable.

To date £1,627,920 of savings from the Opportunities Plan work has been built into the Council's budgets, including £938,320 built in for 2021/22 which includes the outcomes from the garden waste and coastal charging reviews.

The Council has a dedicated procurement team in place to help achieve value for money and service quality from purchasing and letting of contracts, to providing support, guidance, advice and challenge in the procurement process. The work of the team during 2020/21 included the successful tenders for various construction projects such as Stubbington Lane and Station Road housing schemes and the Faraday Phase 1 Industrial Units at Daedalus.

The Council continues to work in partnership with other councils and uses the joint tendering power this brings to secure interest and savings in projects. For example, in 2020/21 the Coastal Partnership successfully tendered for appraisal and design work for a habitat creation scheme at Hook Lake; and the Building Control Partnership awarded a contract for bulk scanning of documentation on behalf of Fareham and Gosport Borough Councils and Portsmouth City Council.

In 2020/21 we evaluated our critical suppliers in light of the pandemic and worked with them as appropriate to maintain them during the period of restrictions; thus minimising the impact on our services.



# Member and Officer Roles and Responsibilities

The Council's Constitution sets out:

- How the Council operates
- The roles, responsibilities and relationships between the different Council committees
- The roles of Executive Members, Committee Chairmen, Ward Councillors and Chief Officers
- The functions, responsibilities and post holders of the statutory offices: Head of Paid Service, Monitoring Officer and Chief Finance Officer.

A member/officer protocol lays out how communication is effected between the two roles.

The Constitution documentation continues to be reviewed by the Democratic Services team to keep it as a single reference source that is readily available on the Council's website.

During 2020/21 emergency powers contained in the Constitution were used to maintain effective decision making as detailed below. Executive portfolio holders carried out new responsibilities under the changes made .

An annual report to the Audit and Governance Committee is produced which advises members on any updates made to the constitution. in 2020/21 we started to review the Constitution Procedure Rules (Part 3); but this was delayed due to the pandemic so any revisions arising from this review will be completed and reported in 2021/22.

There is a designated post which covers the Monitoring Officer responsibilities; this was operational throughout 2020/21. The Monitoring Officer keeps apprised of changes in requirements by attending appropriate courses and the Council subscribes to a national service to obtain advice as necessary.

## Decision Making

The Constitution, including the Schemes of Delegation, sets out how different types of decisions are made, including who has the responsibility for making them and what procedures should be followed.

During 2020/21 we were able to maintain appropriate decision making arrangements by utilising emergency powers and the provisions available in the Corona Virus Act. We were able to resume usual decision making capability early in the year via virtual meetings, which were supplemented by live streaming for the public. A detailed report on these arrangements was presented to the Council in October 2020.

The Monitoring Officer and Chief Finance Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means.

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

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

# Scrutiny

Our committee structure follows the Executive Leader and cabinet model, which requires us to have a scrutiny function.

The Council uses a Scrutiny Panel for each of its six portfolio areas. Each Panel is made up of seven non-executive councillors and reflects the political balance of the elected members. The Panels normally meet a minimum of four times a year with extra meetings called when needed. During 2020/21 panels were suspended in March 2020 due to the pandemic but recommenced in July 2020 by way of virtual meetings.

Work has been carried out during 2020/21 to establish two additional panels that focus specifically on climate change and Daedalus. These panels commenced operation in 2021/22.

Each Scrutiny Panel has a Priority Plan which identifies the objectives from the Corporate Strategy and areas of the executive function that require their scrutiny; for example budget setting fall under the Policy and Resources Scrutiny Panel. Part of the panels' focus is to be engaged in pre-scrutiny work and to have an input in the decision making process by making recommendations to the Executive. In some cases specific member working groups are in place to assist in the development of service visions and strategies.

For example, in 2020/21 Scrutiny Panels looked at:

- Community Centres – Covid 19 Impact Publication (Regulation 19) Local Plan
- Consultation response to Publication Local Plan
- Community Safety and CCTV
- Capital Programme and Capital Strategy 2021/22
- Review of Garden Waste Collection Service

Examples of reports that went to the Scrutiny Panels for pre-scrutiny prior to going to the Executive Committee included:

- Arrangements for the 75<sup>th</sup> Anniversary of VJ Day
- Covid 19 – Special Grants Programme
- Affordable Housing Strategy Update
- Building Control Partnership Agreement
- Covid-19 Economic Recovery Plan
- Covid-19 Public Spaces Recovery Plan

Following post scrutiny of the Executive Committee, there was one decision called in during 2020/21. This was a challenge of an officer delegated decision regarding the Nitrate Mitigation Scheme.

A review of how the new Scrutiny Panels are performing has commenced and will be completed during 2021/22, to confirm that the new arrangements are being consistently applied across the Council.



# Codes of Conduct

In accordance with the Localism Act 2011 we have a Code of Conduct which sets out the behaviours expected from our members, and arrangements in place to deal with matters of ethics, honesty and member conduct. A national review of the code is being conducted by the LGA and our will be updated to reflect this. A review of the local procedures for investigating Member Code of Conduct complaints is planned for 2021/22 to improve and simplify our processes and update documentation accordingly.

New members receive an induction session on the Code and while specific training on media communication has been delayed, this will be delivered in 2021/22.

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

The standards sub-committee was not convened in 2020/21.

The Council's Code of Conduct and Disciplinary Rules and Procedure aim to maintain appropriate standards of conduct at work by employees. It ensures that employees are treated fairly and supports an appropriate culture and working environment, through fair and effective management of disciplinary matters. All new employees complete induction on the content of the Code. A review of the code started in 2016/17 but has been delayed in order to reflect the National Code of Conduct. In the meantime, the Council has continued to update and simplify its own Code and this will be finalised in 2021/22.

A revised policy on employee gifts, hospitality and interests has been drafted to meet the needs of the Bribery Act and will be finalised in 2021/22 along with a new platform for the Register of interests. During 2020/21 our Anti Bribery arrangements were reviewed following a bribery attempt and a new process and reporting mechanism was adopted.

## Whistleblowing

The Council's Whistleblowing Policy is reviewed by the Audit and Governance Committee as required. The Policy is available to all employees via the intranet where periodic updates are also displayed.

Designated channels including electronic reporting methods are available for employees and members of the public.

Focus groups were used in 2017/18 to challenge the effectiveness of the policy which led to a rebranding in 2018/19 as the 'Raise a Concern Policy'.

During 2021/22 we will be rolling out further training for managers and employees, on raising concerns, using the Skillgate platform. This has been delayed due to the pandemic.

Records are kept of incidents of whistleblowing and the results of investigations arising. Statistics are reported to the Audit and Governance Committee annually.

During 2020/21 there were one investigation resulting from internal whistleblowing.

# Member and Officer Development

A modular induction and training programme is in place for members. The induction modules for new members are completed within a few months of being elected. These modules are reviewed individually with new members appointed in the year and any additional training needs identified. A central library is also maintained to allow members to access briefing information outside of training events.

The programme is supplemented by specific topic briefings for members. During 2020/21 three briefing events took place on the Nitrates Mitigation proposal, Planning for the future and Changes to the Viability of the Welborne Planning Application. Significant training and support was also provided to members in 2020/21 to develop the skills to carry out meetings virtually.

Officer training and development is based around a simplified individual performance management process. In 2020/21 a suite of management development documents were published to support managers leading remote and hybrid teams. In 2021/22 we plan to embed this by using learning circles.

There is a coordinated approach to identifying the training needs of the organisation which helps us make the most of money spent on employee development and training.

The Council's online training suite, Skillgate, is available for both members and employees, and includes the facility to create local courses when the generic course does not meet our needs. All new employees complete an online induction package through Skillgate which includes a number of tests and understanding checks before the programme is complete. Completion of the programme is monitored by a designated Human Resources officer.

In 2020/21 we reviewed methodologies available to continuously disseminate ICT Security policy messages to employees and further actions are planned for 2021/22.

We are delivering a leadership training programme with the senior management team. This was put on hold in 2020/21 but it will recommence in 2021/22. Specific training in 2020/21 which did proceed included online application form design which was utilised extensively for the Business Grants work.

We have started to roll out a holistic approach to awareness of mental health and emotional wellbeing issues with sessions delivered or planned to cover 'Managing People with Mental Health Issues' and 'Wellbeing at Work'. These were well supported by managers and employees. The sessions paused due to the pandemic but have resumed virtually during 2021/22.

We have adopted an approach to recruiting, developing and employing apprentices in line with the government apprenticeship levy. As at the end of 2020/21 we have two employees currently remaining in the scheme which are being funded by levy funding.

The Council recognises the potential difficulties young people face getting into the workforce. We will be looking to take part in the Government's Kick Start scheme which provides funding to create job placements for 16-24 year olds on Universal Credit who are at risk of long term unemployment.

Fareham Borough Council will be working with Hampshire County Council who are acting as a 'gateway' employer to help facilitate the placements.

# Ensuring Compliance with Relevant Laws and Polices

Fareham Borough Council and Southampton City Council are in an established award-winning partnership for the provision of legal services. This helps ensure that the Council has access to a wider range of solicitors for support. It also gives joint responsibility for ensuring the Council identifies changes in legislation and has the right policies and procedures in place to ensure ongoing compliance. The partnership has recently been extended for two years to allow a full review of the partnership for implementation by March 2023.

A review has been carried out to agree the most significant laws and polices where assurance is needed as part of the governance framework. Part of this assurance is provided by the Internal Audit Service and additional assurance mechanisms are introduced to provide information when needed.

In response to the pandemic, additional legal advice was needed in 2020/21 in response to government directives. This allowed the use of emergency decision making powers and an emergency budget in accordance with the provisions provided for in Local Government legislation. Throughout 2020/21 advice and support was maintained through remote working and virtual meetings.

A Vanguard review of how the Council manages external requests for information, such as under the Freedom of Information Act 2000, commenced in 2019/20. This has led to some changes to internal processes used and this work will continue into 2021/22.

Key policies are regularly reviewed to ensure they are up to date and relevant. New and refresher training is rolled out when considered appropriate.

It was identified in 2020/21 that the Council needed to formalise its response to the Criminal Finances Act 2017. A project has started to review the Council's policies and procedures to prevent the facilitation of tax evasion.

In 2020/21 the focus has been on adapting policies to the Covid emergency. The focus on procurement during 2020/21 was to ensure compliance with the Procurement Policy Notes in relation to procedure changes introduced by the Government during this time. We also carried out additional testing of Procurement Card transactions to provide assurance that relevant guidelines were complied with.

In 2021/22 we are planning to run a series of workshops to review and strengthen our contract management arrangements and policies. In 2021/22 we will also be strengthening the processes used to assess the financial standing of suppliers during the procurement process and subsequent contract management of critical suppliers.

The Council's Financial Regulations were reviewed and adapted to meet the need to work remotely during lock down. A log was maintained of every change that was made and approved and monitoring continues to trigger the restoration of rules as appropriate.

During 2020/21 preparations were carried out to assess compliance with the data classifications requirements given the UK's exit from the EU at the end of January 2021.



# Financial Management

The Council's arrangements conform to the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on the Role of the Chief Financial Officer in Local Government. During 2020 we refreshed our review of how well we conform to the 2016 statement.

The Council has adopted an integrated approach to service and financial planning which allows for pressures and opportunities to be considered and reflected promptly in the Council's financial plans. The Council's Medium Term Finance Strategy (MTFS) and Treasury Management Strategy are updated each year and approved by Members.

The Strategy had predicted a funding gap in 2020/21 and beyond. This was made worse by the impact of the pandemic as we had to use reserves to fund the 2020/21 spend, and this was predicted to continue into 2021/22. The main impact has been on income derived from Council services such as, Car parking, income from property and trade waste.

It has also cost the Council around £300,000 to make adaptations to service provision and buildings to make them Covid compliant. However, these impacts have been partly offset through Government Covid support schemes.

An Opportunities Plan has been developed to identify ways of dealing with funding issues. Some of these projects have now been delivered but the plan has been extended to meet the new challenges.

We are also continuing to focus on the Collection Fund. The project has stalled due to the pandemic, but we hope to resume quarterly monitoring in 2021/22. Further work is also being carried out to assess the cost implications of delivering corporate priorities, and to update the Strategy for any implications arising from the Fair Funding Review.

Finances are monitored regularly through reporting and discussions with budget holders, directors and the relevant portfolio holder.

Accountants are established as Finance Business Partners (FBP) to the services they support and contribute to the development of their services. In 2021/22 we will be implementing a new finance system which will strengthen all financial processes and reporting, including all integrated budgeting and forecasting.

Monthly summary financial information is published online for all Members and the public. This can be found on our website at: [http://www.fareham.gov.uk/pdf/about\\_the\\_council/councilport.pdf](http://www.fareham.gov.uk/pdf/about_the_council/councilport.pdf)

Twice yearly financial reports showing expenditure against budgets are prepared and presented to the Chief Finance Officer and Executive Members. These focus on services with spend or income over £1 million or which are subject to fluctuations in demand. Corporate financial forecasting meetings are scheduled monthly where the senior finance managers review the budgetary position and forthcoming pressures and opportunities to allow a forecast position to be established.

In 2020/21 mechanisms were introduced to monitor the impact of the pandemic on the Council's financial standing and a financial recovery plan is being implemented to maintain the Council. As part of the plan, an emergency budget was set for 2020/21 as an urgent report in September, and further updated in January. As part of the measures taken the Council has adopted a 'Living below our means' strategy. We also completed a risk assessment of the impact of the pandemic on key council revenue and capital projects.

Regular reports on the Council's loans and investments and Capital Strategy are presented to the Chief Finance Officer, Chief Executive Officer, Executive and Full Council as appropriate. These meet the requirements of the Prudential Code. Treasury investments are made, having taken into account advice from the Council's treasury management consultants in order to reflect current market developments.

# Risk Management

In 2017 the Council adopted a new approach to Risk Management using system thinking principles. This puts the focus on managing risks as an everyday Council activity rather than using resources to maintain corporate risk registers.

This policy consists of seven principles and includes arrangements for monitoring the effectiveness of the policy. This would normally include annual meetings with managers to ascertain risk management activity which has occurred in their services. Key risks arising from these discussions are documented and presented to the Chief executive's management team and the Audit and Governance Committee in six-monthly reports.

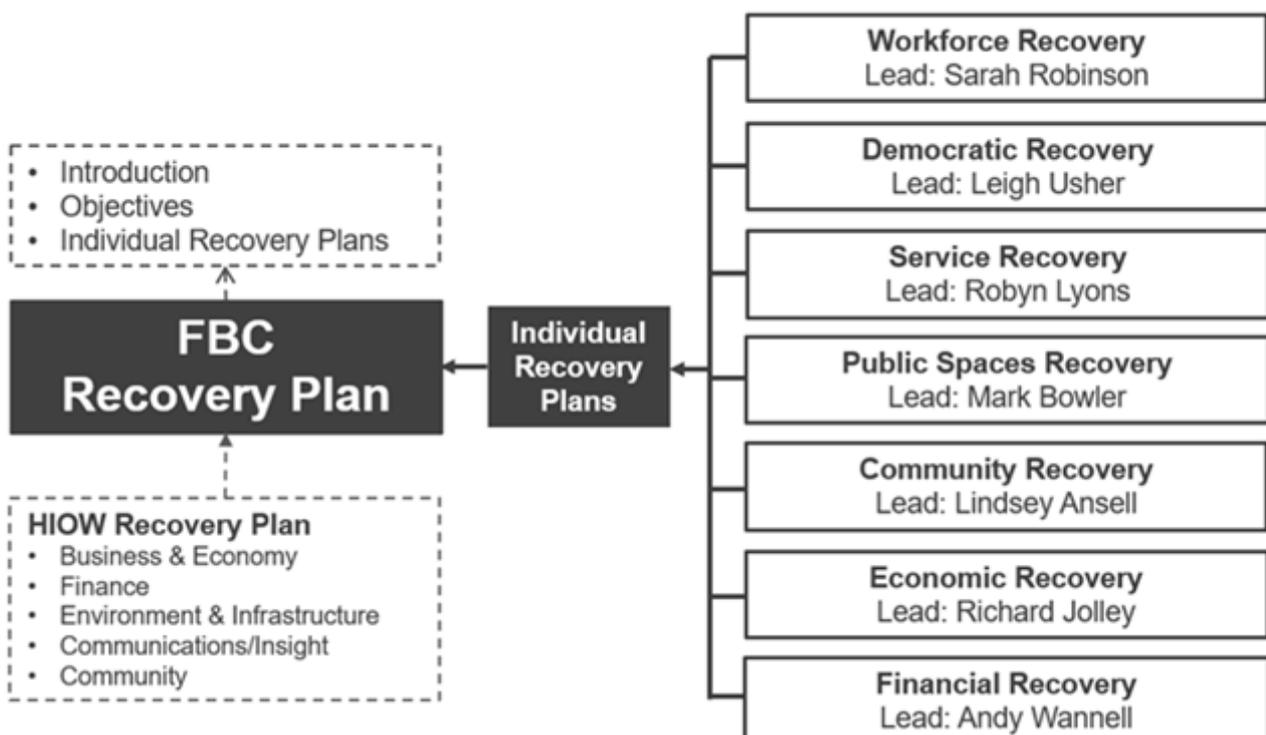
However, due to the pandemic this process was temporarily suspended and replaced by risk management activity associated with the Council's response to the pandemic in both the response and recovery phases. In particular a series of seven recovery plans were drawn up covering different strands of

recovery work officers were working on. A risk assessment of the impact of the pandemic on key council revenue and capital projects was also completed.

In 2021/22 we will be looking at ways to streamline the risk management monitoring reports.

A significant joint review by the audit and insurance teams was started in 2018/19 looking at the ownership of risk inspections in public areas. This work was finalised in 2020/21 and good assurance was given on the processes being used. The results were discussed with key managers and formally presented to CXMT and the Audit and Governance committee and a number of actions agreed. For example, one area was identified where the inspection regime could be strengthened.

There are plans to develop the Risk Management process using workshops to review specific top risk areas in more detail., such as the Local Plan and Solent Airport.



# Emergency Planning and Business Continuity

In accordance with the Civil Contingencies Act 2004, the Council works in partnership with Portsmouth and Southampton's Joint Emergency Preparedness, Resilience and Response Team to ensure its readiness to respond to emergencies is maintained. Actual incidents are responded to in conjunction with Hampshire County Council.

There is also close linkage with the Hampshire and Isle of Wight Local Resilience Forum and communications were received from them throughout the pandemic.

A three year emergency planning work programme has been implemented which was supported by monthly meetings identifying additional areas within emergency planning that require revision and updating.

In 2020-2021 the work programme was severely interrupted by the Covid-19 response which resulted in the council diverting resources to respond.

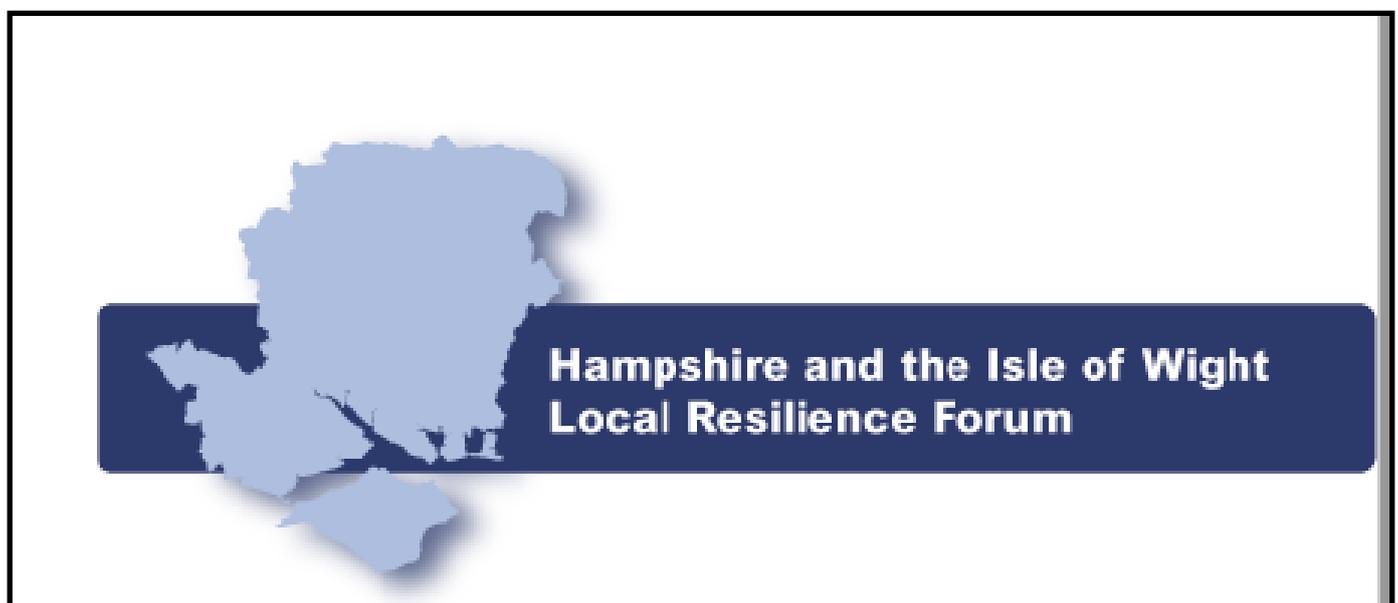
This incident has helped identified new areas of emergency planning that will be implemented as part of the 2021-2022 work programme.

This work programme will take the learning identified as part of the Covid response to update the Councils Emergency Response Plan as part of its three yearly review and has enabled new processes to improve the councils future responses.

The Council also has a duty to ensure that Business Continuity Management Systems are in place to ensure that the authority can provide its critical services during a disruption.

Covid-19 has resulted in one of the largest Business Continuity Incidents and the Council have implemented their plans in response to Covid-19 to aid and inform service recovery in the event of a major disruption of day-to-day activity. This incident has also identified and developed new mechanisms to keep all members briefed on the actions being taken by the Council throughout the response phase of the pandemic.

The lessons and mechanisms will be incorporated into future Business Continuity Plans and are built into the work programme for 2021-2022.



# Counter Fraud

The Council has adopted an Anti Fraud and Corruption Policy which is supported by a programme of strategic work to review and strengthen our counter fraud arrangements, where needed. These include training, data matching exercises and strengthening our policies and procedures.

The Council has retained professional investigation skills and resources which are used to deliver the programme of work which includes carrying out risk assessments on the top frauds faced by councils to ensure our approach to prevention and detection of fraudulent activity remains cost effective.

This Anti Fraud and Corruption Policy was last updated in 2016/17 alongside the Sanctions and Redress Policy. We are planning to refresh the sister Anti Bribery Policy in 2021/22.

A major new fraud risk area was identified at the end of 2019/20 and as a result the Counter Fraud team were seconded to the Business Grants projects. Their role was to assess the risks associated with the payments of grants and to design and implement mitigating actions to reduce the risk of inappropriate payments being made.

This was recorded in a PEA plan, as required by the Government. This remained the focus of strategic counter fraud work carried out in 2020/21 as the Covid restrictions and associated grants schemes continued.

The Audit and Governance Committee receive an annual update on the work carried out on the counter fraud framework and the nature and results of investigations carried out.

In 2020/21 we investigated 729 cases leading to 55 individual frauds or irregularities being found. These amounted to a total value of £494,000. The largest value of fraud found was for business grant payments (£380,000); the majority of which were prevented from being made. Further statistics can be found on our Transparency webpage:

<http://www.fareham.gov.uk/about-the-council/financial-information/intro.aspx#fraud>

Local Authority covered by this PEA Plan:

Fareham Borough Council

**Purpose of this Post Event Assurance Plan:**

1. To assess the level of fraud and error in C-19 grant schemes, loans etc.
2. To identify instances of fraud and error, and take action to claw back money.
3. To identify lessons and improve systems and processes.

**QUESTIONS**

Provide objective(s) for what the Action Plan will deliver and the assurance to be achieved. These should set out overarching SMART (specific, measurable, achievable, relevant and timebound) objective(s) to explain the post-event assurance activity undertaken/planned to understand, measure, identify and recover COVID-19 fraud and irregular spend.

Objectives of the FBC PEA Action Plan:

- 1) Identify any gaps in assurance processes carried out as part of pre-payment processes.
- 2) Identify and deliver any further testing which is possible and proportionate to address those gaps.
- 3) Consider any additional activity required to recover payments made to ineligible applicants already identified.

How have you prioritised which of these schemes will be covered in the plan and what is the rationale for any exclusions from scope

The plan covers all 3 schemes equally.

What business areas are included in the PEA activity

The following service teams are involved in the PEA activity:

- a) Local Taxation and Recovery teams who have been heavily involved in the administration of all the schemes.
- b) Internal audit and fraud teams (including the secondment of the benefits investigations officer) who have also been involved in carrying out a lot of the pre-payment assurance activity.
- c) Project Team Financial analyst who was heavily involved in the design and execution of the Local Authority Discretionary Grants Scheme.

# Partnership Governance

The Council delivers some services by entering into partnership agreements.

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

The Council recognised fourteen partnerships of which ten were deemed significant to the Council in 2020/21.

Lead officers are assigned to each partnership. They are responsible for the day to day liaison and for providing the Chief Executive's Management Team with details of any significant changes to the circumstances / membership of the partnership.

Senior Officers and/or Members sit on the board of the Council's significant partnerships, if there is one, and take an active part in discussions and decision making.

An annual report on partnerships is collated and reviewed by the Chief Executive's Management Team each year to confirm the significance of the partnerships, review

any potential governance issues and review how each is performing. As a result of the 2020/21 report three partnerships were removed from the list where they were no longer considered to be operating as a partnership. In 2021/22 the CCTV partnership will also be coming to an end.

Additional assurance arrangements were put in place during 2020/21 in the form of an annual partnership assurance report to the audit and governance committee.

Notable partnership activity in 2020/21 included:

- Portchester Crematorium joint committee development plan updated to recognise areas for improvement.
- Legal services approved fixed term funding for an additional solicitor covering property work.
- Building control partnership contract to provide building regulations services to Hampshire County Council was renewed.
- New operating model introduced for Building control partnership which seeks to reduce costs to partners.



**GOSPORT**  
Borough Council



# Internal Audit and Audit and Governance Committee

The Council has an internal audit service which delivers a risk based plan of work approved by the Audit and Governance Committee. We have applied 'Systems Thinking' to the provision of the service to focus on what matters to the organisation. This has informed our Internal Audit Strategy which was last updated in 2018/19. We carry out four different strands of work to inform the annual audit opinion and help the organisation improve its systems of control.

In 2020/21 the service was jointly delivered in partnership with Portsmouth City Council. This helps in the delivery of the whole scope of audit work and in maintaining independence. An exercise has also been carried out with other audit teams in Hampshire to document where assurances can be shared.

Managers receive a report of findings following an internal audit review and an action plan is agreed to address any weaknesses found. These actions are tracked until they are completed. An action management system has been developed to improve the information available to managers and help capture updates on implementation. In 2019/20 we further developed an approach to assist managers self serve the system which will be rolled out in 2021/22.

A summary of the work undertaken and the findings are reported quarterly to the Audit and Governance Committee.

In 2019/20 we completed the Review of how the CIPFA statement of the Role of Internal Audit 2019. Over a high level of

compliance was found and some actions have been identified to further strengthen arrangements. On implemented in 2020/21 was to clearly align part of the audit plan with corporate major projects, programmes, policy initiatives and new and developing systems

The service operates to the Public Sector Internal Audit Standards and the Internal Audit Charter was updated in 2018/19 to reflect the latest changes in the standards. Our annual review of compliance with the standards concluded that in 2020/21 we fully conformed with 49 of the 52 Audit Standards and partially conformed with the other three. Compensating activities are in place which included an external assessment undertaken by our audit partners in 2018/19.

The Council has an Audit and Governance Committee which undertakes the functions of an Audit Committee in accordance with the CIPFA guidance. It reports directly to the Full Council. It usually meets four times a year and receives reports covering the range of governance issues set out in its terms of reference. In particular it receives the Head of Audit's Annual Report and the External Auditor's Audit Results Report. Due to the Covid restrictions in 2020/21 the Committee only met three times and all meetings were held virtually using video conferencing. However, two of the meetings were extended to catch up on items scheduled for the year.



# Head of Internal Audit's Annual Report

Internal audit cannot give absolute assurance but an opinion was provided to the Audit and Governance Committee in July 2021:

*Using the information outlined in this report, in the opinion of the Head of Finance and Audit, the Council had a framework of governance, risk management and control for the year 2020/21 which was generally working effectively. There is awareness amongst managers about their top risks and the importance of control mechanisms within the Systems Thinking culture, and the need to address any major weaknesses found.*

*Effective approaches to identify and manage risks were instigated as part of the pandemic response and there was no major weakening in systems of control identified.*

*The opinion is based on the following evidence:*

- ✓ *No "minimal" audit assurance opinions were again given this year, and only one "limited" audit assurance*
- ✓ *Income or expenditure errors were only recorded in two audit and were very low in value*
- ✓ *48% of recommendations followed up were signed off by the audit team and a further 41% were being progressed*
- ✓ *No significant issues were arising from the pandemic specific testing carried out*
- ✓ *Collaborative working with managers on 3 wider work areas in the year is leading to improved control and efficiency*
- ✓ *Progress has been made on 2 issues highlighted last year:*
  - *Clarifying the ICT security policies for the Council and reviewing methodologies available to continuously disseminate messages to employees*
  - *Carrying out stock condition surveys and implementing asset*

*management plans.*

- *Strengthening budgetary control arrangements in a few teams to assist the Living within our Means agenda*

*Other issues highlighted last year where progress has been made but work is still needed are:*

- *Rolling out training and support for contract management, including where IT systems are provided by a third party in the Cloud.*
- *Strengthening debt collection and write off processes in a number of services.*
- *Carrying out stock condition surveys and implementing asset management plans.*
- *Fully embedding the new system for managing costs associated with housing repairs or moving to an alternative system.*
- *Rolling out the new action management system to services to improve the management of recommendations arising from audit reports and updating the data available on the level of implementation.\**
- *Replacing the system to host the employee gifts and hospitality register, supported by the launch of the revised policy.\**

*Additional areas noted this year where further action will enhance the adequacy and effectiveness of governance, risk management and control include:*

- *Reconvene the annual risk management meetings with Heads of Service, and pilot the production of a streamlined monitoring report.\**

*These issues had already been recognised by managers and they are working to address them.*

# External Audit and Other External Assurances

The Council's independent external auditors for the year for core audit work were Ernst and Young. They have worked throughout the year in accordance with their code of practice.

The findings from the work carried out last year were summarised in their Annual Audit Letter which was presented to the Audit and Governance Committee in March 2021 and circulated to Members and the statutory officers. This report was very positive and unqualified opinions were given by the auditors. There are no outstanding recommendations to be implemented.

Other external inspections and audits undertaken during the year which have been used as a source of assurance included:

- Annual certification report from KPMG 2019/20;
- Report of the Local Government and Social Ombudsman 2019/20;
- Hampshire County Council review of our safeguarding arrangements (January 2021);
- External quality audit of Building Control Partnership by British Standards Institute (April 2020);
- Compliance work undertaken to meet the requirements of the Public Service Network;
- Partnership coverage by other internal audit teams (PfSH, Project Integra, Eastern Solent Partnership)
- Hampshire Insurance Forum—First hand inspection Report 2020/21
- Crimson major defects reports 2020-21



# Review of Effectiveness Conclusion

Fareham Borough Council has responsibility for conducting a review of the effectiveness of its governance framework, including the system of internal control. This is done at least once a year.

The review of effectiveness is informed by the work of Directors within the authority, who have responsibility for the development and maintenance of the governance environment, and is led by the Chief Executive's Assurance Group. This consists of all directors, which includes the Monitoring Officer and Chief Finance Officer, and is chaired by the Chief Executive Officer. The Head of Finance and Audit also attends.

The group reviewed the following evidence:

- Analysis of the 23 parts of our governance framework against current knowledge, including reports seen by Senior Officers during the year

- Highlights from Head of Audit's Annual Report 2020/21
- Summary of reports and feedback we have received from external auditors, inspectors or other external agencies in the year
- Actions arising from the annual cyber security report
- Review of progress made on the actions included in the previous Annual Governance Statement.

The conclusion from the review of effectiveness is that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

The Audit and Governance Committee have reviewed the sources of assurances used this year and have scrutinised the content of the Annual Governance Statement.



# Actions taken to address the issues raised in the 2020/21 Annual Governance Statement

The annual review of effectiveness has identified the following progress made on the actions identified in the previous year:

	Issue 2019/20	Status	Update 2020/21
1	Develop a process, to feed the finances needed to deliver the priorities set out in the Corporate Strategy, into the Medium-Term Financial Strategy. (B/fwd)	No progress to date	<b>Head of Finance and Audit</b> No progress made during 2020/21 due to resources being diverted to assist in the pandemic response.
2	Conduct a review of current levels of compliance with the Transparency Code.	In Progress	<b>Web and Social Media Manager</b> A review was commenced in 2019/20, with the majority of the transparency pages being updated. These will be completed in 2021/22.
3	Due to the impacts of the pandemic, review virtual mechanisms available to carry out public consultations.	Complete	<b>PR and Marketing Manager</b> We invested in virtual exhibition software that can be used for multiple exhibitions. This software enables easy access to online consultation information. This has been used for the Balancing the books and Local Plan exhibitions so far and will be used further in the future.
4	Continue to review part 3 of the constitution (Procedure Rules) and produce a report of first revisions needed to the Audit and Governance Committee.	In Progress	<b>Head of Democratic Services</b> Limited progress made in the year due to the pandemic but will complete during 2021/22.
5	Identify how emergency powers and changes to the deputation scheme can be used in response to and during the pandemic.	Complete	<b>Head of Democratic Services</b> Democratic decision making was maintained throughout the year. Initially emergency powers were used to delegate decision making to the Chief Executive and this was quickly moved to individual executive portfolio holder decision making.  The provisions of the Corona Virus Act 2020 were then implemented to move to committee decision making via virtual meetings.
6	Maximise the efficiency and effectiveness of virtual committee meetings.	Complete	<b>Head of Democratic Services</b> Virtual committee meetings were successfully delivered using Microsoft Teams technology and supplemented by live streaming for members of the public. This live streaming has continued with the reintroduction of physical meetings to maximise social restrictions.
7	Continue to move towards paperless agenda for committee meetings.	In Progress	<b>Head of Democratic Services</b> Work continues to explore the options to deliver the hardware options for members.
8	Complete the post-implementation review of the new Scrutiny Panels and explore the potential for using special panel meetings for specific items.	In Progress	<b>Head of Democratic Services</b> This review commenced in March 2020 with interviews with all chairmen and lead officers but was halted during the pandemic and will be resumed during 2021/22 with all interviews being carried out again to reflect on the contribution of the Scrutiny panels during the pandemic.

# Actions taken to address the issues raised in the 2020/21 Annual Governance Statement (con.)

	Issue 2019/20	Status	Update 2020/21
9	Finalise the review of the Disciplinary Code of Conduct and Disciplinary Rules to update it and make it simpler for users. (B/fwd)	In Progress	<b>Director of Support Services</b> Review of the Code of Conduct has been ongoing but is awaiting the National Code to be produced. Work will now be finalised during 2021/22 for the Councils own local
10	Carry out a training session with members covering the media avenues available and the potential pitfalls to be aware of. (B/fwd)	No progress to date	<b>PR and Marketing Manager</b> This was delayed due to the pandemic but will be completed in 2021/22 with the new members.
11	Develop a Skillgate package for managers and employees how to raise and handle concerns.	In Progress	<b>Director of Support Services</b> Development of the Skillgate platform has commenced but had to be put on hold due to the pandemic. This will recommence during 2021/22.
12	Complete the development of a replacement database for the employee register of Interests.	In Progress	<b>Director of Support Services</b> Development of the database has commenced but had to be put on hold due to the pandemic. This will recommence during 2021/22.
13	Review methodologies available to continuously disseminate ICT security policy messages to employees	In Progress	<b>ICT Infrastructure Manager</b> ICT Security policies have been rewritten and new technology to issue them identified and tested. Awaiting final approval from senior management on the policies' contents and wording before putting them live for staff to agree to. Corporate testing of staff awareness of ICT security included fake phishing emails. The results of these tests have been disseminated corporately via SID but it was agreed that during 2020/21 stronger methodologies would be sought in conjunction with the Communications team, to achieve a stronger impact on employees regarding the importance of ICT security.
14	Develop a programme of training and support for managers of all levels to assist them with delivering the Council's vision for individual performance management including when working remotely. (B/fwd)	In Progress	<b>Director of Support Services</b> This was superseded by a wider package of support, for managers leading remote and hybrid teams. A suite of management development documents was published in 2020/21 and will be embedded through use of learning
15	Identify and implement legislative changes introduced as a result of the Covid Pandemic such as virtual decision making and the government/procurement directives (PPN0120 and PPN0220).	Complete	<b>Head of Democratic Services</b> Appropriate responses implemented as a result of Covid legislation changes in relation to decision making and procurement which were successful in maintain democracy and supporting critical suppliers.
16	Strengthen the processes used to assess financial standing of suppliers during the procurement process and subsequent contract management of critical suppliers.	In Progress	<b>Head of Finance and Audit</b> A number of finance business partners attended online training sessions delivered by the external company that provides the data platform used to assess suppliers and contractors. An initial assessment of critical suppliers has been completed. Formal monitoring arrangements will be introduced in 2021/22.

# Actions taken to address the issues raised in the 2020/21 Annual Governance Statement (con.)

	Issue 2019/20	Status	Update 2020/21
17	Introduce mechanisms to monitor the impact of the pandemic on the Council's financial standing and develop a financial recovery plan to maintain the council as a going concern.	Complete	<p><b>Deputy Chief Executive Officer</b></p> <p>A Covid finances dashboard was developed and discussed weekly by the Finance Managers. Key messages arising were relayed to CXMT.</p> <p>A formal financial recovery plan was also created as part of a suite of Council recovery plans which included the setting of an emergency budget for 2020/21. Key actions in the plan delivered, included roll out of the 'Living below our means' strategy and increased monitoring of four areas, reduction in revenue income collected, extraordinary costs incurred in delivering day to day services, one off expenditure to deliver specific recovery activities and a contraction in the economy that changes demand for certain services. Monitoring of Government grants available was also introduced.</p>
18	Extend the Opportunities Plan work and progress the priority actions.	Complete	<p><b>Head of Finance and Audit</b></p> <p>A number of additional projects have been added to the opportunities plan for delivery when time allows. Significant projects progressed in 2020/21 include green waste charging, coastal parking charging and provision of CCTV.</p>
19	Complete a risk assessment of the impact of the pandemic on key Council revenue and capital projects and revisit the assumptions made at the outset of the project in the context of the current economic climate	Complete	<p><b>Deputy Chief Executive Officer</b></p> <p>A risk assessment of the impact of the pandemic on key council revenue and capital projects was completed which involved revisiting the assumptions made at the outset of each project in the context of the changed economic climate. Meetings were held with managers and project leads and the project program was updated accordingly. For example, the Fareham Live project was placed on hold for six months and is due to be reviewed in 2021/22</p>
20	Roll out the new action management system to service managers and improve information available on the level of action implementation. (B/fwd)	In Progress	<p><b>Head of Finance and Audit</b></p> <p>No progress made on rolling out the action management tool. Targeted recommendation reviews and assistance continued to be implemented. Project started in 2020/21 to address recommendations arising from the contract's deeds audit.</p>
21	Pilot the new Annual Partnership assurance report with the Audit and Governance Committee.	Complete	<p><b>Customer Services Manager</b></p> <p>New annual report designed and first presented to the Annual Audit and Governance Committee in November 2020.</p>
22	Explore mechanisms to keep all members briefed on the actions being taken by the Council throughout the response phase of the pandemic.	Complete	<p><b>Chief Executive Officer (CX)</b></p> <p>Mechanisms used included leader extended group meetings to all members; 2 weekly group meetings with either the CX or DCX present, weekly bulletins issued, regular CX phone call to the leader.</p>
23	Identify lessons from the pandemic response which can be built into the emergency response plan, and business continuity plans.	Complete	<p><b>Head of Environmental Health</b></p> <p>Lessons have been learnt from the pandemic that will inform the revised emergency response plan and business continuity plan going forward. This includes the use of a virtual/hybrid emergency control centre and the need to determine critical services at the time of the pandemic.</p>

# Planned Governance Improvements 2021/22

Whilst there have been a number of improvements made through the year, the Council strives for continuous improvement. Therefore, following the review of effectiveness, we have selected the following improvement opportunities, for priority action in the next year. Some of these relate to actions not yet fully complete from previous years:

Ref	Part of Framework	Planned Improvement	Lead officer
1	Council's Vision and Outcomes	<b>Develop a process, to feed the finances needed to deliver the priorities set out in the Corporate Strategy, into the Medium-Term Financial Strategy. (B/fwd)</b>	Head of Finance and Audit
2	Council's Vision and Actions	<b>Establish an appropriate governance structure and resources to oversee delivery of the Climate Change Action plan, including the engagement of managers in understanding how this applies to their services.</b>	Director of Planning and Regeneration
3	Communication	<b>Review the role of the business newsletter going forward and how it can integrate into the Council's Myaccount facility.</b>	Head of Planning Strategy and Economic Development
4	Constitution	<b>Continue to review part 3 of the constitution (Procedure Rules) and produce a report of first revisions needed to the Audit and Governance Committee. (B/fwd)</b>	Head of Democratic Services
5	Decision Making	<b>Carry out a review of the methodologies being used to engage the public in member decision making during the pandemic (e.g. live streaming of meetings) and consider their future role for all meetings.</b>	Head of Democratic Services
6	Scrutiny	<b>Introduce two new scrutiny panels into the committee structure to cover climate change and Daedalus. (Complete)</b>	Head of Democratic Services
7	Scrutiny	<b>Complete the post-implementation review of the new Scrutiny Panels by re-interviewing the chairmen and lead officers and reflecting on the contribution of the Scrutiny panels during the pandemic. (B/fwd)</b>	Head of Democratic Services
8	Codes of Conduct	<b>Review the procedures for investigating Member Code of Conduct complaints, to improve and simplify processes and update documentation accordingly.</b>	Director of Support Services
9	Codes of Conduct	<b>Finalise the review of the Disciplinary Code of Conduct and Disciplinary Rules to update it and make it simpler for users. (B/fwd)</b>	Director of Support Services

# Planned Governance Improvements 2020/21(con)

Ref	Part of Framework	Planned Improvement	Lead officer
10	Codes of Conduct	Carry out a training session with members covering the media avenues available and the potential pitfalls to be aware of. (B/fwd)	PR and Marketing Manager
11	Whistleblowing	Develop a Skillgate package for managers and employees how to raise and handle concerns. (B/fwd)	HR Business Partner
12	Conflicts of Interest	Complete the development of a replacement database for the employee register of Interests. (B/fwd)	HR Business Partner
13	Head of Paid Service	Complete a post pandemic review of the Council's response and the opportunities arising for new ways of working.	Chief Executive Officer
14	Compliance with relevant law and policies	Complete a review of the contractual arrangements for the legal services partnership.	Head of Democratic Services
15	Compliance with relevant law and policies	Run a series of workshops to review and strengthen our Contract management arrangements and policies.	Head of Finance and Audit and Head of Democratic Services
16	Compliance with relevant law and policies	Strengthen the processes used to assess financial standing of suppliers during the procurement process and subsequent contract management of critical suppliers.	Head of Finance and Audit
17	Compliance with relevant law and policies	Review the council's policies and procedures to prevent the facilitation of tax evasion.	Head of Finance and Audit
18	Financial Management	Continue to implement the Financial Recovery Plan to minimise the impact on Council reserves in future years.	Section 151 Officer
19	Financial Management	Implement the new finance system to obtain the benefits of increased efficiency and functionality.	Head of Finance and Audit
20	Internal Audit	Roll out the new action management system to service managers and improve information available on the level of action implementation. (B/fwd)	Head of Finance and Audit
21	Risk Management	Reconvene the annual risk management meetings with the Heads of Service, and pilot the production of a streamlined monitoring report.	Head of Finance and Audit
22	Emergency Planning	Produce a 3 yearly report and deliver the first year's actions which will include revising the Emergency Plan to reflect the new virtual Emergency Control Centre set up.	Head of Environmental Health
23	Business Continuity	Review how the BCPs are structured and how they work. Particularly in identifying critical services.	Head of Environmental Health

# Certification

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions are outlined above.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed on behalf of Fareham Borough Council by:**

Councillor S.D.T. Woodward  
Executive Leader

P.K.Grimwood  
Chief Executive Officer

# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 12 July 2021  
**Report of:** Head of Finance and Audit  
**Subject:** INTERNAL AUDIT ANNUAL PLAN 2021/22

#### SUMMARY

This report presents a draft plan of Internal Audit Work proposed for delivery in 2021/22.

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

- 1. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.*
- 2. 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.*
- 3. To approve significant interim changes to internal audit plan and resource requirements.*
- 4. To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.*

#### RECOMMENDATION

It is recommended that the Committee approves the draft Annual Audit Plan for 2021/22 as attached as Appendix A.

## INTRODUCTION

1. A requirement of Internal Audit Standard 2010 is that *'a risk-based plan is established to determine the priorities of internal audit activity, consistent with the organisation's goals'. 'It must take into account the requirement to produce an annual internal audit opinion and the assurance framework'.*
2. The Annual Audit Plan provides a mechanism in which the Head of Finance and Audit makes appropriate use of internal audit resources to produce the evidence needed to support the annual statement of assurance on risk management, internal control and governance arrangements.
3. At the meeting in March 2019, the Audit and Governance Committee approved the latest Internal Audit Charter which set out the following role and purpose of internal audit:

### Internal audit role:

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

### Internal audit purpose:

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

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

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

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

4. At the meeting in March 2019, the Audit and Governance Committee also approved the latest Internal Audit Strategy which set out the principles to be used to set the Annual Plan of Internal Audit work and how the purposes set out in the Charter will be met.
5. A draft plan of Internal Audit work for 2021/22 was therefore collated using these principles and giving consideration to the following:
  - (a) The Council's Corporate Strategy and key priorities, and internal policy changes and initiatives; including the objective to adopt a Vanguard approach to the delivery of services.
  - (b) Initiatives, changes and risks being highlighted through the Risk Management process and Medium-Term Financial Strategy.

- (c) Governance, fraud or risk issues identified through the year from work carried out by the internal audit or finance teams; including horizon scanning for emerging local or national risks and themes. In particular, in 2021/22 consideration was giving to the assurances that have arisen as a result of the Covid pandemic and the Council's response and recovery phases.
- (d) Trends and outstanding recommendations identified on the audit recommendation database.
- (e) On-going liaison with the senior and service managers of the Council.

## **DRAFT ANNUAL AUDIT PLAN FOR 2021/22**

- 6. The draft plan prepared for 2021/22 is shown in [Appendix A](#).
- 7. The format of the plan specifies the list of audits that will be monitored for delivery to support the 2021/22 Head of Audit's opinion, which is supplemented with a list of "reserve" work which will be covered if time allows. This is to allow some capacity in the team to be reserved for unplanned work and the impact of other governance work identified for the year which do not feature in the plan.
- 8. The following should be noted:
  - (a) **Level of Opinion Audit:** There is provision in the plan for 170 days of individual audit opinion work plus 10 days for the in-house team to support these audits. This meets the Strategy minimum of 180 days.
  - (b) **Number of Assignments:** There are 24 discrete pieces of work included in the plan, plus 6 in the reserve list, covering a variety of departments in the Council. There will also be reactive pieces of work completed in the year which will be used to support the Annual Audit Opinion. This meets the Strategy minimum of 20 audits.
  - (c) **Type of Audits:** The plan includes the breakdown of the types of audit set out in the Strategy including 4 Fundamental Systems and 4 High Risk Audits. It also includes some coverage of key corporate projects as required by the CIPFA Statement on the Role of the Chief Internal Auditor.

## **RESOURCING THE PLAN**

- 9. Resources available through the partnership with Portsmouth City Council will be used to deliver the majority of the Opinion work to ensure independence. They will also be used to assist with at least 3 of the Wider pieces of work whilst the in-house resources are diverted to assist with the business grants process and to provide assurance on the new finance system. There are no audits in the plan this year that are appropriate for sharing coverage with Gosport Borough Council.
- 10. The rest of the wider work will be delivered by a mixture of in-house audit and finance resources and by collaborative working with other teams in the Council.

11. The use of the Reserve list of work will help us to manage the reduction in resources for the year, resulting from the continued need to divert resources to the Covid 19 response, and the service has been reviewing “non-plan” work to identify what can be stopped / slipped to help the service catch up on the delivery of the plan.

### **RISK ASSESSMENT**

12. The Council has a statutory requirement to carry out internal audits of services and systems, with sufficient coverage to allow an annual Head of Audit’s Opinion to be produced. Delivery of this plan will therefore mitigate the risk of non-compliance.

### **Appendices**

Appendix A – Draft Audit Plan 2021/22

**Background Papers:** None

**Reference Papers:**

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

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

**Enquiries:**

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

## APPENDIX A - Draft Internal Audit Plan 2021/22

	Type	Title	Dept-Lead Service	Days	Reason for Inclusion in Plan
	<b>OPINION WORK</b>				
1	Fundamental Systems	<b>Local Tax Collection</b>	H-Local Tax	15	Fundamental system - last opinion given 2018/19
2	Fundamental Systems	<b>Accounts Payable</b>	H-Operational Finance	15	Fundamental system - last opinion given 2018/19
3	Fundamental Systems	<b>Fixed Assets</b>	H-Technical Finance	10	Fundamental system - last opinion given 2018/19
4	Fundamental Systems / High Risk	<b>Vehicle Maintenance ordering, invoice management and stock control</b>	T-Street Scene	15	Fundamental Process in High Risk service - a large number of previous recommendations still to be closed down
5	Services and Systems - High Risk	<b>Sheltered Housing</b>	H-Tenancy services	15	High risk audit - last opinion given 2016/17
6	Services and Systems - High Risk / Corporate project	<b>Parking Charges</b>	R-Parking Services	15	High risk audit - last opinion given 2018/19. Audit to focus on the new parking charges in coastal areas, machine replacement in the town centre and electronic parking permits.
7	Services and Systems - High Risk	<b>Trade Waste and Recycling</b>	T-Street Scene	12	High risk audit - last opinion given 2016/17
8	Services and Systems - High Risk / Contract / Corporate project	<b>Planning Applications - Nitrate Offsetting</b>	P-Development Management	10	High risk audit - last opinion given 2018/19 but coverage targeted at the new arrangements to offset nitrates including the tripartite agreement. Also, to meet coverage of corporate projects as required by the CIPFA statement on the role of the CIA
10	Computer - key system	<b>Security and Use of DWP data services</b>	H-Housing Benefits	8	Request from service in response to assurance letter from DWP

## APPENDIX A - Draft Internal Audit Plan 2021/22

11	Computer - Fundamental System	<b>Housing Civica System - post implementation review</b>	H-Housing	15	Key IT system - last opinion given 2018/19 - New system implemented in 2020/21 and 2021/22
12	Computer - Fundamental System	<b>Cyber security during Lockdown</b>	F-ICT Services	10	Specialist audit to give post covid assurances
13	Services and Systems - Other	<b>Service charges and recharges - Leaseholders</b>	H-Housing Maintenance/Leaseholders	15	Rolling programme of testing to ensure that the Council is complying with the latest relevant legislation in relation to services charges, and that other recharge processes are robust.
14	Services and Systems - Other	<b>Car loans</b>	H-Operational Finance	10	Minor system last opinion given 2002/03 (for apprentice to lead)
15	Limited Opinion Follow Up	<b>Housing Voids - Follow Up</b>	H-Housing Maintenance	5	Follow up of limited opinion audit given late in 2019/20
	In-house support			10	
<b>Total Opinion Work</b>				<b>180</b>	
<b>WIDER WORK</b>					
16	Thematic review	<b>Procurement transaction testing</b>	Cross Cutting		Top supplier analysis of invoices paid and verification that work paid for was completed and charged at the correct rate.
17	Thematic review	<b>Tell us once follow up</b>	Cross Cutting		Request for the Government to review our processes as they believe there are some information sources that are not being processed.
18	Certification	<b>Covid Grant Certifications</b>	H-Housing Benefits		Certification request from Ministry of Housing, Communities and Local Government. Post assurance documentation of the controls in use

## APPENDIX A - Draft Internal Audit Plan 2021/22

19	Collaborative Project	<b>Prevention of the Facilitation of Tax Evasion</b>	Cross Cutting		Collaborative audit with Finance team to review the Council's policy and procedures to prevent the facilitation of tax evasion. These procedures are designed to give a proportionate response to obligations placed upon organisations by the Criminal Finances Act 2017. These obligations had been given greater prominence under the Coronavirus Job Retention Scheme (furlough).
20	Corporate, Specialist, Governance & Risk	<b>Anti-Bribery Arrangements</b>	Cross Cutting		Refresh of the Councils Anti-Bribery Policy, risk assessment and action plan, with added internal audit assurances / structured interviews
21	Corporate / Contract - joint working	<b>Contract Management</b>	Cross Cutting		Audit brought forward from 2018/19 to assist with the review of contract management arrangements and the requirements in the Procurement and Contract Procedure Rules. Previous audit opinion was Fair.
22	Corporate Assurance Work	<b>Targeted Assistance with Recommendation Implementation - Finance Recommendations</b>	H-Finance		To assist services with implementation recommendations each year. Subject for 2021/22 likely to focus on financial services recommendations that relate to the new finance system.
23	Fundamental System	<b>New finance system implementation - audit sign off</b>	H-Finance		Key stage sign off of new finance system implementation including system design, user access, authorisation procedures and data transfer processes. Also, to meet coverage of corporate projects as required by the CIPFA statement on the role of the CIA
24	Counter Fraud - Data Matching	<b>Business rates and council tax refunds</b>	H-Local Tax		Data Analysis of Business rates and council tax refunds to check to duplicate bank accounts and match to employee bank accounts. Run through the controls and access restrictions in place

<b>RESERVE WORK IF TIME ALLOWS</b>					
25	Corporate Assurance Work	<b>The Council's Covid Response</b>	Cross Cutting		Review of the systems of control during the Council's Covid response including control changes during the response and recovery phases.
26	Corporate Assurance Work	<b>Commercial rents and the Covid response</b>	P-Property Services		Review of the impact of rental delays from commercial property during the pandemic

## APPENDIX A - Draft Internal Audit Plan 2021/22

27	System Design review	<b>Information flow in the Business Rates team</b>	H-Local Tax		Review the flow of incoming information through different channels and how it subsequently reaches the business rates team. Also, how the support officer role works. Use of collaborative discussions and interviews.
28	Thematic review	<b>Social Media Monitoring by services Follow Up</b>	Cross Cutting		Short follow up of the findings in the Social media Monitoring audit
29	Corporate Assurance Work / Joint working	<b>Sheltered housing safe spot checks</b>	H-Housing		To maintain some audit presence in Sheltered housing sites to confirm that procedures are being adhered to
30	Corporate Assurance Work (WIDER)	<b>Pre-application advice cost comparison to income</b>	P-Development Management		To assist service in verifying the costs associated with providing pre-planning application advice compared to the charges made.

# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 12 July 2021  
**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 Audit and Governance 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. It should be noted that as covered in the last report, the Covid-19 pandemic has significantly impacted on the resources available to the service due to:
  - a) reduced productivity from the audit team arising from changes in working arrangements during lock down and continuing pandemic restrictions.
  - b) time lost due to the need to allow auditees to prioritise their pandemic responses over audits and
  - c) the need to divert auditor resources to assist with the Council responses to the pandemic at both Fareham BC and Portsmouth CC.
3. The completion of the plans has therefore been impacted but the service has made a good recovery. This has allowed sufficient coverage this year to support the annual Head of Audit opinion without qualification.

## **DELIVERY OF THE 2020/21 PLAN**

3. There were 16 opinion audits in the 2020/21 year's plan. 15 of the audits have reached completion with the remaining audit (Benefits) currently at stage four - the Auditor has started to deliver the agreed scope of work.
4. There are also 3 wider pieces of work which have either been finalised or are close to being finalised.

## **AUDIT PLAN FOR 2021/22**

5. Due to the reduced availability of resources, as detailed above, the 2021/22 plan is currently in draft format only. This plan is due to be finalised and will be included in the next Internal Audit Progress report.

## **FINALISING PREVIOUS AUDIT PLANS**

6. One of the audits from previous plans have now been closed since the last report, namely, Solent Airports Operating Contracts, as a refreshed opinion is now available from the 2020/21 audit. The 6 remaining audits are detailed in Appendix One with the latest update on how we are aiming to bring this work to a conclusion.

## **FINDINGS FROM COMPLETED AUDITS**

7. The 11 latest final reports that have been issued are listed below, with the opinions given and number of recommendations made:

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
Democratic Representation and Management (including members allowances and expenses)	Strong	-	-	-
Service Charges and Recharges – Council Tenants	Strong	-	-	-
Accounts Receivable	Strong	-	1	-
Benefits and Council Tax Computer System	Strong	-	1	-
Parking Enforcement	Strong	-	1	-
Income Management	Reasonable	-	2	3
Solent Airport Operating Contracts	Reasonable	-	3	-
Internet and Email access	Reasonable	-	4	-
Cloud – Follow Up	Reasonable	-	-	14
Safeguarding – Follow up	Limited	-	-	6
Procurement Card – Transaction Testing	Not applicable	-	5	-

## RISK ASSESSMENT

8. There are a few risk considerations in relation to this report, arising from the Safeguarding follow up audit that has remained as limited assurance as no evidence was provided to allow the previous recommendation made to be closed down. Details of the risks are given in Appendix Three.

### Appendices:

**Appendix One** - Update on Outstanding Audits from Previous Plans

**Appendix Two** - Audits in the 2020/21 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 19 October 2020 on the Internal Audit Plan 2020/21

**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	-	<p><b>Audit relying on completion of other Audit Work – Targeted for November 2021</b></p> <p>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 later in the 2021/22 plan.</p>
2016/17			
<b>Solent Airport Operating Contracts (Opinion audit)</b>	5	12	<p><b>Audit in Plan for 2020/21 has now superseded this audit</b></p> <p>The draft audit report in 2016/17 generally gave strong assurance in relation to these contracts, although there were a few minor areas of testing that needed finalising and feeding into the report. Some of these have since been picked up by the finance team.</p> <p>In the meantime, the nature of the operations at Daedalus have been expanded, and there have been changes in the FBC officers involved in estate management and financial support.</p> <p>An audit was included in the 2020/21 audit plan and has been completed which has now allowed this audit to be closed.</p>
Building Health and Safety Risks (Wider piece of work)	5	-	<p><b>Audit Targeted for Completion using Apprentice Resources – September 2021</b></p> <p>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.</p>
2017/18			
Commercial Estates (Opinion audit)	8	15	<p><b>Audit Targeted for Completion – September 2021</b></p> <p>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 latest manager of the service to allow the report to be finalised by the September Committee.</p>
2018/19			
Write Offs History Analysis & Interest charges (Wider piece of work)	5	-	<p><b>Audit Targeted for Completion - November 2021</b></p> <p>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 and all the</p>

Audit Title	Stage reached of 10*	Original Days in Plan	Proposals to Conclude this work
			findings discussed at a manager's workshop before this work can be finalised. Some subsequent testing has been picked up in the 2020/21 audit of Account Receivable.
Housing Options Debtors (Wider piece of work)	8	-	<b>Audit Targeted for Completion – September 2021</b> 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.
Review of all other outstanding audit recommendations (Wider piece of work)	1	-	<b>Audit Targeted for Completion – March 2022</b> Little progress has been made on this large piece of work that has been outstanding for a number of years, although in the meantime some targeted follow up work has commenced and more has been built into the 2021/22 plan.

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

APPENDIX TWO

Audits in the 2020/21 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
<b>FUNDAMENTAL SYSTEM AUDITS</b>												
Benefits (1204)	4	15										
Income Management (1205)	10	15	Reasonable	↔ 17/18	07/21	N	-	2	1	-	1	2
Accounts Receivable (1206)	10	15	Strong	↔ 17/18	07/21	N	-	1	6	-	-	-
<b>SERVICES &amp; SYSTEMS – HIGH RISK</b>												
Democratic Representation and Management (including members allowances and expenses) (1207)	10	12	Strong	↔ 13/14	07/21	-	-	-	2	-	-	-
Household Waste Collection (1200)	10	10	Strong	↔ 15/16	03/21	N	-	3	-	-	-	3
Recycling (1199)	10	8	Strong	↔ 15/16	03/21	N	-	2	-	-	-	-
Parking Enforcement (1208)	10	10	Strong	↑ 15/16	07/21	N	-	1	-	-	-	-
Solent Airport Operating Contracts (1201)	10	15	Reasonable	No previous opinion	07/21	Y	-	3	-	-	-	-
<b>SERVICES &amp; SYSTEMS – Other</b>												
Service Charges and Recharges - Council Tenants (1203)	10	15	Strong	↑ 18/19	07/21	N	-	-	2	-	-	-
<b>CORPORATE, SPECIALIST GOVERNANCE &amp; RISK</b>												
Construction Industry Tax Scheme (CIS) (1211)	10	5	Strong	↔ 08/09	03/21	N	-	-	-	-	-	-
<b>COMPUTER AUDITS</b>												
Benefits and Local Tax Computer Systems (1209)	10	15	Strong	↔ 06/07	07/21	N	-	1	-	-	-	-

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
<b>Internet and Email access (1210)</b>	<b>10</b>	12	Reasonable	↔ 08/09	07/21	N	-	4	-	-	-	-
<b>FOLLOW UP</b>												
<b>Cloud (1212)</b>	<b>10</b>	8	Reasonable	↑ 18/19	07/21	N	-	-	4	-	11	3
<b>Tenancy Management (1213)</b>	<b>10</b>	5	Strong	↑ 19/20	03/21	N	-	-	4	-	-	1
<b>Safeguarding (1202)</b>	<b>10</b>	5	Limited	↔ 19/20	07/21	N	-	-	-	-	2	4
<b>Housing Rents (1214)</b>	<b>10</b>	6	Reasonable	↑ 19/20	03/21	N	-	-	4	-	1	1
<b>WIDER WORK</b>												
<b>Social Media Monitoring by Services (1217)</b>	8	-		N/A								
<b>Targeted Assistance with recommendation implementation – Contract Deeds (1215)</b>	<b>10</b>	-	N/A	N/A	03/21	N	-	-	7	1	2	1
<b>Contract Management</b>	Postponed	-	-	-	-	-	-	-	-	-	-	-
<b>Disabled Facility Grants – Grant certification 2019/20</b>	Cancelled	-	-	-	-	-	-	-	-	-	-	-
<b>Procurement Card Testing</b>	<b>10</b>	-	N/A	N/A	07/21	Y	-	5	-	-	-	-
<b>Totals</b>	171											
<b>RESERVE AUDITS</b>												
<b>Vehicle Maintenance ordering, invoice management and stock control</b>	<b>Not Started</b>	15	-	-	-	-	-	-	-	-	-	-
<b>Car Loans</b>	<b>Not Started</b>	5	-	-	-	-	-	-	-	-	-	-
<b>Housing Voids - Follow Up</b>	<b>Not Started</b>	5	-	-	-	-	-	-	-	-	-	-
<b>Pre-application advice cost comparison to income</b>	<b>Not Started</b>	5	-	-	-	-	-	-	-	-	-	-
<b>Annual Testing of Procurement Decisions</b>	<b>Not Started</b>	-	-	-	-	-	-	-	-	-	-	-

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

## Findings from the Latest Completed Audits

<b>Audit Title</b>	<b>Democratic Representation</b>	<p><b>Overview of Subject:</b> The Democratic Services Team deal with the management of committees, actions, and the 31 elected Councillors for the Authority, ensuring that the correct governance is in place, and that members expenses are administered in accordance with the approved schemes.</p> <p>Due to the Covid 19 restrictions special delegations and arrangement were implemented in the year to ensure that important decisions were not delayed due to meetings not being convened.</p>
<b>Report Number</b>	<b>1207</b>	
<b>Year of Audit</b>	<b>2020/21</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Strong</b>	
<b>Direction of Travel</b>	↔2013/14	
<b>Errors Found</b>	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 Procedures			-	-	-	2	-	-
Management of Committees			-	-	-	-	-	-
Monitoring of actions arising			-	-	-	-	-	-
Forward Plan and Recording of Decisions			-	-	-	-	-	-
Register of Pecuniary Interests			-	-	-	-	-	-
Members Expenses			-	-	2	-	-	-
Decision making during the pandemic			-	-	-	-	-	-

<b>Audit Title</b>	<b>Service Charges and Recharges – Council Tenants</b>	<p><b>Overview of Subject:</b> There are currently 2,410 council housing properties, 2,030 of these attract service charges. The costs attributed to the service charges include: Sheltered Housing Management and Support, heating, water, laundry, cleaning and grounds maintenance charges. These costs are apportioned annually to the tenants rent accounts in accordance with the type of tenancy and the number of properties in the block they reside in. Service charges are reviewed annually.</p>
<b>Report Number</b>	<b>1203</b>	
<b>Year of Audit</b>	<b>2020/21</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Strong</b>	
<b>Direction of Travel</b>	↑ 2018/19	
<b>Errors Found</b>	No	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🚫)	Important (▲)	Advisory (ℹ️)	Implemented	Cancelled	Not Implemented
Confirmation that processes are in place			-	-	-	-	-	-
Accuracy of utility bills			-	-	-	-	-	-
Calculation of Service Charges			-	-	-	-	-	-
Recovery of Service Charges			-	-	-	-	-	-
Accuracy of Refunds			-	-	-	-	-	-
Error Identification and Management			-	-	-	2	-	-

<b>Audit Title</b>	<b>Accounts Receivable</b>	<p><b>Overview of Subject:</b> The management of the Authority's income collection is the responsibility of the Exchequer team, who raise and collect sundry debtor invoices, and the Corporate Debt recovery team, who deal with hard to collect outstanding debt. In 2020/21 the Authority raised 6,194 invoices with a total value of £12.1m.</p> <p>A review of sundry and former tenant debt highlighted that the overall level of debt for the previous 3 years has remained relatively stable, although the age of all debt has increased. This is mainly because of the COVID restrictions and the reprioritisation of resources to assist the Council's response.</p>
<b>Report Number</b>	<b>1206</b>	
<b>Year of Audit</b>	<b>2020/21</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Strong</b>	
<b>Direction of Travel</b>	↔2017-18	
<b>Errors Found</b>	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 Debts			-	-	-	1	-	-
Debt Recovery and Write Offs			-	-	-	5	-	-
Refunds			-	-	-	-	-	-
Reconciliations			-	-	-	-	-	-
Debt Levels			-	-	-	-	-	-
Invoice Format			-	-	-	-	-	-
Credit Notes			-	-	-	-	-	-
Bailiffs			-	1	-	-	-	-

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

<b>Important</b>	<p><b>Bailiffs Progress Reporting</b> – The audit highlighted that debt cases submitted to bailiff agencies are reported on individually but there was a lack of progress reporting on total cases being handled. This information can be requested. It was agreed that a regular reporting structure would be implemented to provide oversight of the agencies progress on cases submitted. Enquiries had already begun to be made with the agencies during the audit.</p>
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<b>Audit Title</b>	<b>Benefits and Local Tax Computer System</b>	<b>Overview of Subject:</b> The Revenues and Benefits Service uses various software to manage the income and expenditure across the borough, including benefits payments and council tax and non-domestic rates income collection. There are four key pieces of software in use. These historically have been installed and utilised on the Fareham Borough Council server, but a project is in place to move them to storage in the Cloud.
<b>Report Number</b>	<b>1209</b>	
<b>Year of Audit</b>	<b>2020/21</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Strong</b>	
<b>Direction of Travel</b>	↔2006/07	
<b>Errors Found</b>	No	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🚨)	Important (▲)	Advisory (ℹ)	Implemented	Cancelled	Not Implemented
<b>Policies Procedures and Contracts</b>			-	-	-	-	-	-
<b>Management of the System</b>			-	1	-	-	-	-
<b>Access Controls</b>			-	-	-	-	-	-
<b>Data Security</b>			-	-	1	-	-	-
<b>Management of down-time</b>			-	-	-	-	-	-

<b>Weaknesses identified during the audit and the proposed action (Essential and Important only)</b>	
<b>Important</b>	It was noted during the audit that a full system recovery exercise had not been undertaken for some time. However, due to improvements in other areas of IT, the need for a full disaster recovery exercise has been negated and going forward is not likely to be required. The terms of the new contract currently being implemented detail that it will be the contractor's responsibility to provide the system with 99.5% availability and to restore it in the event of a failure.

<b>Audit Title</b>	<b>Parking Enforcement</b>	<p><b>Overview of Subject:</b> Fareham Borough Council is responsible for the Enforcement of off-street parking. The service is managed by the Parking team under the Environmental Health Directorate who issue Penalty Charge Notices (PCN) for parking contraventions. The recovery of funds from liable parties, who are unwilling or unable to pay the imposed fines, is outsourced to external contractors. With effect from April 2020 the responsibility for on-street parking transferred to Hampshire County Council.</p>
<b>Report Number</b>	<b>1208</b>	
<b>Year of Audit</b>	<b>2020/21</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Strong</b>	
<b>Direction of Travel</b>	↑2015/16	
<b>Errors Found</b>	No	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🚨)	Important (▲)	Advisory (ℹ️)	Implemented	Cancelled	Not Implemented
<b>Contract Monitoring</b>			-	1	-	-	-	-
<b>Area Coverage</b>			-	-	-	-	-	-
<b>PCN Issues</b>			-	-	-	-	-	-
<b>Early Payment Discount</b>			-	-	-	-	-	-
<b>Appeals</b>			-	-	1	-	-	-
<b>PCN Escalation</b>			-	-	1	-	-	-
<b>Traffic Enforcement Centre</b>			-	-	-	-	-	-
<b>Free Parking Permit Scheme</b>			-	-	-	-	-	-

<b>Weaknesses identified during the audit and the proposed action</b> (Essential and Important only)	
<b>Important</b>	<p><b>Contract Monitoring</b> - The Authority receives assurance from the Contractor on individual Penalty Charge Notice cases on a monthly basis. The contract entitles the Authority to summarised and statistical data which would provide an overview of the contractor's effectiveness at retrieving funds. It was agreed that this information would be requested regularly to provide further clarity relating to the overall debt recovery rates.</p>

<b>Audit Title</b>	<b>Income Management</b>	<p><b>Overview of Subject:</b> There are a number of income collection channels used by the council which include postal income, payments at the cash office, automated telephone payments, assisted telephone payments, internet payments and direct to bank payments. The income collection is recorded using a computerised system which has an integrated set of modules, including Income Management and Counter Receipting. There have been a number of upgrades to the system since the last audit including the migration to the Cloud.</p>
<b>Report Number</b>	<b>1205</b>	
<b>Year of Audit</b>	<b>2020/21</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Reasonable</b>	
<b>Direction of Travel</b>	↔2017-18	
<b>Errors Found</b>	No	

Areas of Scope	Adequacy of controls	Effectiveness of controls	New Recommendations raised			Previous Rec Implementation (E & I only)			
			Essential (☼)	Important (▲)	Advisory (Ⓜ)	Implemented	Cancelled	In Progress	Not Implemented
Income Collection			-	1	-	-	-	-	-
Building Control Income			-	-	-	-	-	-	-
Cash Up and Security of Takings			-	-	-	-	-	-	-
Cash Office Transfer to Bank			-	-	-	-	-	-	-
Cash Office Takings are Banked Intact			-	1	-	-	-	-	-
Maintenance of the C and D Book			-	-	-	-	-	-	-
Suspense Account Clearance			-	-	-	-	-	-	-
Follow Up Recommendations			-	-	-	1	-	1	2

<b>Weaknesses identified during the audit and the proposed action</b> (Essential and Important only)	
<b>Important</b>	<b>Cheques received in the post</b> - All cheques received in the post are recorded daily. Testing revealed that there needed to be more detailed records to facilitate a more effective way of tracing individual cheque payments should the need arise. A new system was implemented during the audit to provide more clarity.
<b>Important</b>	<b>Document Storage</b> – Several documents relating to the end of day cash up procedures are printed and stored in date order. To improve document security and accessibility it was suggested that the documents should be stored electronically. This process has already been started.
<b>Previous Important</b>	<b>Management Information on Payment Channels.</b> It was previously agreed that the Operational Finance team would work with the systems team to develop monthly information on the numbers and values of payments that customers are making by the various payment channels. This action had not been implemented.
<b>Previous Important (x 2)</b>	<p><b>Payment Card Industry Standards</b> – Two issues highlighted as outstanding in the previous audit regarding the compliance with the Payment Card Industry Standards were followed up:</p> <ul style="list-style-type: none"> <li>(a) A cost-effective solution to encrypting information held on the Chip and Pin devices should be sought – this action is still under review</li> <li>(b) A business continuity plan should be drawn up of actions to be taken if a compromise of card holder data is found or detected – this action is also under review by the Projects Team</li> </ul>

<b>Audit Title</b>	<b>Solent Airport Operating Contracts</b>	<p><b>Overview of Subject:</b> There are two contracts for the two key aspects of the Daedalus site, one relates to the operation of the airfield and the other relates to the operation of Fareham Innovation Centre. The Innovation Centre provides bespoke workspace and business support for growing companies in the marine, aerospace and engineering sectors.</p>
<b>Report Number</b>	<b>1201</b>	
<b>Year of Audit</b>	<b>2020/21</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Reasonable</b>	
<b>Direction of Travel</b>	No previous Opinion	
<b>Errors Found</b>	Yes - minor	

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
Contract extension – Innovation Centre			-	-	-	-	-	-
Financial Monitoring			-	1	-	-	-	-
Contract Expenditure			-	-	-	-	-	-
Contractor Performance			-	1	1	-	-	-
Debt Collection			-	-	-	-	-	-
Insurance Compliance			-	1	-	-	-	-
Airfield Operation - Insurance			-	-	1	-	-	-
Airfield Operation - Management Fee			-	-	-	-	-	-
Innovation Centre - Management Fee			-	-	-	-	-	-
Income Streams			-	-	-	-	-	-

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

<b>Important</b>	<b>Financial Monitoring</b> - Testing across the audit found some minor discrepancies in the calculations of management fees and the recording of income and expenditure. A reconciliation process will be implemented to ensure that any discrepancies can be resolved in a timely manner.
<b>Important</b>	<b>Contractor Performance</b> – Monthly meetings are held with the Innovation Centre Contractor. However, there was no records of what was agreed at the meeting. Going forward it was agreed that minutes of each meeting would be recorded for reference purposes.
<b>Important</b>	<b>Insurance Compliance</b> - Within the contracts the contractors are required to hold a certain level of specific insurances. Testing found that regular checks are not undertaken to ensure that the contractors are compliant with their contractual insurance obligations. It was agreed that annual compliance checks would be carried out in the future.

<b>Audit Title</b>	<b>Internet and Emails</b>	<p><b>Overview of Subject:</b> Employee and councillor use of emails and the Internet is managed by the ICT Team who also maintain the anti-virus protection and security levels needed to keep the Authority's network and email traffic secure. The Authority is in the process of moving its storage capacity over to a cloud-based system. Fareham Borough Council has an obligation under GDPR (General Data Protection Regulation) to keep information secure. Due to the COVID19 impact many of the Authority's workforce are now working remotely as opposed to desktop computers housed in the Civic offices, resulting in considerations and changes to adapt to new working methods.</p>
<b>Report Number</b>	<b>1210</b>	
<b>Year of Audit</b>	<b>2020/21</b>	
<b>Type of Work</b>	Computer - Key System	
<b>Assurance Opinion Given</b>	<b>Reasonable</b>	
<b>Direction of Travel</b>	↔ 2006/07	
<b>Errors Found</b>	No	

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
Restricted Access			-	-	-	-	-	-
ICT Policies			-	-	-	-	-	-
Email Filters			-	-	-	-	-	-
Virus Protection			-	-	-	-	-	-
Firewalls & Access			-	1	-	-	-	-
Remote Access			-	1	-	-	-	-
Sensitive Users			-	1	-	-	-	-
Security of Email access during Lockdown			-	-	-	-	-	-
Secure Email Facilities			-	-	-	-	-	-
Targeted Monitoring of Emails			-	1	-	-	-	-
Internet Usage			-	-	1	-	-	-

<b>Weaknesses identified during the audit and the proposed action</b> (Essential and Important only)	
<b>Important</b>	<b>Firewalls and Internet Access</b> – ICT are continually updating the firewalls within the Councils IT systems which ensure that access to non-appropriate websites is prevented. However, there is the risk that the firewalls may block access to some legitimate sites that are required by some departments, such as those involved in enforcement activity. To ensure that departments have the website access they need, ICT will arrange for a corporate communication to be sent out to the services to allow them to identify any websites that may be targeted for blocking, which the service still needs.
<b>Important</b>	<b>Remote Access</b> – The methods used by Councillors to access information remotely, as required for their role within the council, is being reviewed. Work has already begun to obtain feedback from Councillors to understand their needs and what support might be required going forward.
<b>Important</b>	<b>Sensitive Users</b> – The ICT team have created a 'sensitive users' list identifying users that have access to sensitive data as part of their job role. Users on this list have to give their authority to a designated member of the ICT team to access their accounts when resolving technical issues. The list is currently under review and consideration will be given to producing a formal corporately agreed criteria to ensure the classification of a sensitive user is consistent.
<b>Important</b>	<b>Targeted Monitoring</b> – Under current procedures employees may be subject to targeted monitoring of their emails for the purposes of an investigation. These instances are very rare, and all such monitoring requests must be properly authorised. Whilst testing verified that there was appropriate authorisation for the release of information by IT, it was agreed that the audit trail of the authorisation could be strengthened.

<b>Audit Title</b>	<b>Cloud Follow Up</b>	<p><b>Overview of Subject:</b> Migrating to a primarily Cloud based approach to ICT is a key industry and sector trend. At a high level the benefits are well understood; from an IT perspective much of the ‘technical’ work involved in commissioning, supporting and maintaining ICT hardware and software moves to third parties, reducing the need to maintain these skills in-house; for the wider organisation Cloud is a transformative technology, improving resilience and enabling more flexible, location independent working. Weaknesses were previously found with the controls in the processes used by the service and this audit followed up progress in implementing the agreed action plan.</p> <p>The previous audit report was issued in June 2019 with a Limited Audit Assurance Opinion. Four of the original recommendations (three essential) have now been signed off as implemented.</p>
<b>Report Number</b>	<b>1212</b>	
<b>Year of Audit</b>	<b>2020/21</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Reasonable</b>	
<b>Direction of Travel</b>	↑ 2019/20	
<b>Errors Found</b>	No	

<b>Weaknesses identified during the audit and the proposed action (Essential and Important only)</b>	
<b>Previous Essential x2</b>	<b>Strategy Costing</b> – It was previously recommended that Finance and ICT should work more closely together when managing costs and potential savings from the Cloud Strategy. This audit has shown that, with the improvement of joint working there is greater clarity on costs associated with the Cloud development. The Finance Business Partner also now attends the ICT Strategy Board meetings. However, further clarity is required to enable costs to be tracked to their effect on the revenue budget monitoring.
<b>Previous Essential x3</b>	<b>Communication with Services</b> –The previous audit highlighted that Service areas do not have a clear understanding of what Cloud is, specifically ‘intentions, timescales, benefits and expectations’ and when these are likely to come into effect, both in relation to corporate systems and in relation to core systems used by specific services. A number of actions were agreed on how to engage with the services including developing plans and timescales for the core service applications. Due to the COVID restrictions these actions have been delayed until such time a physical event can be organised.
<b>Previous Essential x3</b>	<b>Income System Contract</b> - A number of issues were previously identified with the current contract documents with the income management system provider and the cloud solution. It was previously recommended that further documents need to be requested and a meeting held between IT and the lead service to agree performance expectations and check these for coverage in the agreement. While a Service Level Agreement (SLA) has not been obtained an equivalent Customer Service Charter has been provided and ongoing work is being undertaken with regards to the recommendations.
<b>Previous Essential x2</b>	<b>Clarification of IT and Service Role</b> - It was previously recommended that at the procurement phase IT be closely involved, supporting services in ensuring that the correct technical metrics are included in contracts/SLAs , to meet service requirements, as systems move to the Cloud. Once systems move to business as usual in the Cloud, IT need to continue to be involved, supporting services in holding providers to the contracted level of service.

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

<p><b>Previous Important x2</b></p>	<p><b>Contract Management of Income Management System provider</b> - It was agreed that performance reporting on the Income Management system on an agreed schedule would be obtained on a quarterly basis. This will be progressed as soon as practicable.</p>
<p><b>Previous Important</b></p>	<p><b>Consideration of Risks in New systems</b> - It was previously recommended that the training needs of the finance systems team should be ready to work in a cloud environment for the new Finance system and to be armed with the questions they should be asking. At the time of audit, the procurement of this system was put on hold, due to COVID-19, with work due to recommence as soon as possible.</p>
<p><b>Previous Important</b></p>	<p><b>Disaster Recovery Plan</b> - It was previously recommended that, once ICT's role regarding Cloud hosted applications is better understood, the IT Disaster Recovery Plan should be updated to reference this accordingly. A complete review of Disaster Recovery was undertaken during 2020 and the required updates are nearing completion.</p>

<b>Audit Title</b>	<b>Community Safeguarding Follow Up</b>	<p><b>Overview of Subject:</b> Legislation places an obligation on all local authorities to safeguard all children, young people and vulnerable adults from harm, irrespective of ability, background, sexuality, lifestyle, religion or cultural beliefs. Safeguarding procedures should be in place to provide this protection, and all staff and members have a responsibility to be aware of the risks, how to identify issues and how to deal with them. Safeguarding is the responsibility of all Council staff, with the day to day support, with specialist roles by the Community Safety Team.</p> <p>The previous audit highlighted issues in the level of assurance over the training and awareness of FBC staff, members, and contractors undertaking work for FBC. The previous audit report was issued in September 2019. The recommendations arising have been followed but none have yet been signed off.</p>
<b>Report Number</b>	<b>1202</b>	
<b>Year of Audit</b>	<b>2020/21</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Limited</b>	
<b>Direction of Travel</b>	↔2019-20	
<b>Errors Found</b>	No	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)			
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	In Progress	Not Implemented
Contractor Compliance	🟡	🔴	-	-	-	-	-	2	-
FBC Staff and Officers Safeguarding Training	🔴	🔴	-	-	-	-	-	-	2
FBC Members Safeguarding Training	🔴	🔴	-	-	-	-	-	-	1
Centralisation of Safeguarding training records to include Depot staff	🔴	🔴	-	-	-	-	-	-	1

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

<b>Previous Essential x 2</b>	<b>Compliance to Policy – Contractors</b> – Testing carried out in the previous audit found limited evidence that managers were checking the adequacy of safeguarding arrangements of their Contractors and ensuring that DBS checks had been carried out by the Contractor when required. Progress has been made in the development of additional clauses to be added to contracts as standard, however, this has not yet been approved or issued as an instruction.
<b>Previous Important x 2</b>	<b>Staff and Officers Safeguarding Training</b> – It was previously recommended that the accessibility of the main training currently available to staff should be increased and refresher training should be organised. This should include an appropriate platform for those members of staff without access to the online training available. However, no evidence has been provided to demonstrate any increased availability to staff.
<b>Previous Important</b>	<b>Members’ Training</b> – It was previously recommended that the Safeguarding Policy is complied with, with regard to the completing of Safeguarding awareness training for members. However, no evidence of further Safeguarding training, for Members who have no training recorded, was evidenced during the audit.
<b>Previous Important</b>	<b>Training Records</b> – It was previously recommended that the recording of staff and Members who have undertaken training be reviewed corporately and a system put in place for this. However, no consolidation of Safeguarding training records has been identified.

<b>Audit Title</b>	<b>Procurement Card – Transaction Testing</b>	<p><b>Overview of Subject:</b> Internal audit carry out several pieces of assurance work each year to support the Head of Audit’s annual opinion. Testing of a sample of Procurement Card transactions for the current financial year 2020/21 was undertaken to ensure that appropriate purchases are being made, and controls and financial prudence are not being weakened during the pandemic.</p> <p>There are 35 card holders across the Authority. For the period April 2020 through to the end of November 2020 there were 986 transactions totalling £178,359. The sample tested included 30 transactions from 22 P-Cards with a total value of £17,168.</p>
<b>Report Number</b>	<b>1220</b>	
<b>Year of Audit</b>	<b>2020/21</b>	
<b>Type of Work</b>	Corporate Assurance Work (WIDER)	
<b>Assurance Opinion Given</b>	<b>N/A</b>	
<b>Direction of Travel</b>	N/A	
<b>Errors Found</b>	Yes	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🚫)	Important (▲)	Advisory (ℹ️)	Implemented	Cancelled	Not Implemented
VAT Receipts	🟢	🟡	-	1	-	-	-	-
Duplicate Payments	🟡	🟡	-	1	-	-	-	-
Regular use of a Supplier	🟡	🟡	-	1	-	-	-	-
Unrecognised Transactions	🟢	🟡	-	1	-	-	-	-
Purchases made on behalf of another Officer	🟢	🟡	-	1	-	-	-	-

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

<b>Important</b>	<b>VAT Receipts</b> - Some of the transactions tested did not have a supporting VAT receipt to enable the VAT to be reclaimed from HMRC. These were for a higher value than the no receipts threshold that is permitted. Further training has been undertaken with Procurement Card holders to reinforce the requirement to obtain and file VAT receipts.
<b>Important</b>	<b>Duplicate Payments</b> – Testing highlighted a payment in respect of an overdue account. Further investigation found that part of the payment made had already been processed through the Finance System. Checking procedures are being updated and the overpayment has already been reclaimed from the supplier.
<b>Important</b>	<b>Regular payments</b> – One supplier was regularly found to be being paid through P-card rather than the usual ordering system. This supplier will now be set up for payment in the main purchasing system.
<b>Important</b>	<b>Unrecognised Transaction</b> – Testing found a payment which had not been settled at the time of the audit and no action was being taken to pursue it. This transaction has since been confirmed as non-fraudulent.
<b>Important</b>	<b>Purchase made on behalf of another officer</b> - An officer was requested to make a purchase on behalf of another officer but when asked, was unaware what the purchase was going to be used for. Procurement Card holders will be reminded of their responsibilities as a P-card holder.

## APPENDIX FOUR

### Reference Tables

#### 1. Scale of Assurance Opinions

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

#### 2. Scale of Recommendation Priorities

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

#### 3. Stages of An Audit Assignment

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

# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 12 July 2021  
**Report of:** Deputy Chief Executive Officer  
**Subject:** HEAD OF AUDITS ANNUAL OPINION 2020/21

#### SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2020/21 and gives an overall assurance opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

It also covers the results of the Quality Assurance and Improvement Plan for the internal audit service for the year.

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

- a) 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.*
- b) to consider reports from the head of internal audit on internal audit's performance, including 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.*

#### RECOMMENDATION

It is recommended that the contents of the report are noted as a source of evidence for the 2020/21 Annual Governance Statement.

## **INTRODUCTION**

1. This report covers the assurances that are available through the work of the Internal Audit service on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
2. It is one of the key documents to inform this year's Annual Governance Statement.

## **ASSURANCES AVAILABLE TO SUPPORT THE OPINION**

### **Completion of Planned Assignments**

3. The original audit plan for 2020/21 included 20 audit assignments of different types. One of the audits in the plan was cancelled (Disabled Facilities Grant – grant certification) as no additional grants have been received this year, therefore there was no need for certification. One of the audits in the plan (Contract Management) has needed to be postponed until next year and there has been no coverage of the audits on the reserve list. One additional audit was instead added to look at the transactions occurring on the Councils Procurement cards, given their increased usage during the Covid-19 pandemic.
4. The revised plan of 19 audits (22 last year) therefore gave a good representation of the audit universe (which contains 171 audit titles). 16 of these assignments were to produce an audit opinion and 171 days, plus 15 days in-house support, were assigned to this type of work.
5. At the time of giving this annual opinion, all 19 planned assignments for 2020/21 have been undertaken with sufficient coverage for conclusions to have been drawn and to be useable as a source of assurance. 17 (20 last year as at October) have been fully completed and actions agreed with the Audit Sponsor. 2 pieces of work from previous plans have also now been fully completed so can also be used in this report.
6. This is considered adequate coverage as set out in the Internal Audit Strategy to allow the annual opinion to be produced. [Appendices A and B](#) give the latest status of the assignments and the key assurance measures arising from the work.

### **Spread of Individual Assignment Opinions**

7. The majority of assignments result in an individual assurance opinion which reflects the level of internal control found within the system for those areas tested.
8. The table below provides a summary of this information compared to previous years:

<b>Table 1 - Spread of Assignment Assurance Opinions Given</b>					
<b>Year</b>	<b>Strong</b>	<b>Reasonable</b>	<b>Limited</b>	<b>Minimal</b>	<b>Total</b>
2020/21	10 (63%)	5	1	0	16
2019/20	7 (44%)	5	4	0	16
2018/19	6 (30%)	11	3	0	20
2017/18	5 (36%)	7	2	0	14
2016/17	8 (47%)	8	1	0	17

No opinions of 'Minimal Assurance' were issued again in the year. There was one 'Limited Assurance opinion' awarded. This was for the Safeguarding Follow Up Audit where the implementation of previous recommendations was found to be outstanding. Weaknesses were found in managing contractor compliance with requirements and delivering regular refresher training. This continues to be reviewed at a corporate level to agree expectations in relation to contractor compliance.

### **Income or Expenditure Errors found**

- Errors are defined as spending we incurred when we shouldn't have, or income due which was not requested. Duplicate payments totalling £204 were identified in the testing of procurement card transactions. Minor calculation errors were also found in the Solent Airport Operating Audit.

### **Implementation of Recommendations**

- During 2020/21, 11 of the audits included a review of the progress made with implementing previous recommendations. These covered 67 essential or important actions. Testing confirmed that 48% of the recommendations have been implemented and a further 28% were in progress.
- Of the recommendations followed up 17 were essential recommendations. Of these, 6 (35%) were closed as complete or no longer needed, and another 7 (41%) were in progress. Those outstanding related to the IT Cloud, Safeguarding and Housing Rents audits.
- The table below compares this to previous years.

<b>Table 2 – Trend in Implementation of Recommendations</b>			
	<b>No of audits with recommendation reviews</b>	<b>No. of recs tested</b>	<b>% of recommendations tested signed off by audit as implemented or closed</b>
<b>2020/21</b>	11	67	48% + 41% in progress
<b>2019/20</b>	12	79	66% + 16% in progress
<b>2018/19</b>	15	190	69% + 18% in progress
<b>2017/18</b>	6	20	35% + 24% in progress
<b>2016/17</b>	4	8	50%

## **Other Sources of Assurance in the Year**

13. [Appendix C](#) lists other sources of assurance that have been available this year to support the Annual Audit Opinion.
14. In particular it lists the work the team have carried out to provide assurance that controls were continuing to be maintained during the Council's response to the pandemic. These have included leading on the design of emergency processes such as electronic invoice flow and authorisation, post opening scanning and banking, cash office transfer to the bank, collection of payments over the phone when home working and strengthening the monitoring of property debt collection rates.

## **Governance, Ethics and IT**

### Covid-19 Pandemic

15. The main governance theme for 2020/21 has been how the Council has responded to the national Covid-19 pandemic emergency, continued to deliver its critical services and maintain appropriate systems of control.
16. The following specific audit assurances around the Covid emergency were delivered:
  - Full involvement with the systems of controls and anti-fraud procedures used to deliver the £50million programme of business grants and reliefs.
  - Testing carried out of the Emergency decision making processes used (as part of the Democratic Representation audit)
  - Testing carried out of the security of Internet and email platforms used for employees working from home ( as part of the internet and emails audit)
  - Sample testing of purchases being made on council procurement cards during the pandemic.

No significant issues were found in the systems of control being utilised. Further areas are testing have also been included in thte 2021/22 audit plan.

### Governance

17. There were no other specific pieces of governance work carried out as part of the 2020/21 audit plan.

### Ethics

18. The Public Sector Internal Audit Standards require the '*internal audit activity to evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities*'. A programme of work has been drawn up to help provide on-going assurances on our ethics arrangements.

19. There has been little work completed this year for this work stream; actions arising previous which are not yet fully complete include:
  - (a) Provide refresher training of managers on how to manage “concerns” brought to their attention and provide appropriate feedback.
  - (b) Finalise and roll out briefings on the revised Employee Interests, Gifts and Hospitality Policy, and the new ways of registering these.

#### Information Technology Governance

20. The Public Sector Internal Audit Standards require the ‘*internal audit activity to assess whether the information technology governance of the organisation supports the organisation’s strategies and objectives*’.
21. The conclusion arising from this work for 2020/21 is that the information technology governance of the Council is adequate to support the organisation’s strategies and objectives. This is based on previous risk discussions with the Head of Service, the assurance provided in the second annual cyber security assurance presentation and knowledge of the findings from the following computer audits:
  - (a) Benefits and local Tax computer systems (strong)
  - (b) Internet and Email access (reasonable)
  - (c) Cloud audit follow up (improved assurance to reasonable)
22. The work the organisation has carried out to continue to meet the Public Services Network (PSN) requirements was also noted as was the work being carried out by the ICT Security Officer, particularly in relation to Data Protection Impact Assessments and the impact of the UK leaving the European Union. Innovative methodologies have also been used during the year to spread user awareness on ICT security threats and their responsibilities.
23. However, there is still some work needed to expand the ICT strategy for the Cloud migration of the service systems, and strengthen the visibility of the costs and savings planned from the wider ICT strategy; including new ways of working.

#### **Risk Management**

24. During 2020/21 the usual discussions and reports were suspended to divert resources to other activities. However, risk management processes were utilised corporately throughout the pandemic response and recovery phases, including the production of a set of themed recovery plans. Other examples of corporate risk management observed were the discussions concerning the Welborne viability assessment, and the risk assessments carried out of the impact of the pandemic on the Council’s capital programme.
25. Collaborative working was used to refresh the audit looking at the effectiveness of the Council’s inspection regimes to identify risks and hazards on council land and property. This work has now been finalised and presented to managers.

26. This provided positive assurance and an action plan to address some issues arising was agreed which will be monitored as part of the usual recommendation monitoring processes.

## **HEAD OF AUDIT OPINION**

27. I am satisfied that sufficient internal work has been undertaken to allow an opinion to be given on the adequacy and effectiveness of governance, risk management and control. In 2020-21 this has included some assurance work relating to the Council's systems of controls during its response to the Covid-19 pandemic. However, it should be noted that, as audit cannot review every decision and transaction of the council, the opinion cannot provide absolute assurance.
28. Using the information outlined in this report, in the opinion of the Head of Finance and Audit, the Council had a framework of governance, risk management and control for the year 2020/21 which was generally working effectively. There is awareness amongst managers about their top risks and the importance of control mechanisms within the Systems Thinking culture, and the need to address any major weaknesses found. Effective approaches to identify and manage risks were instigated as part of the pandemic response and there was no major weakening in systems of control identified.
29. The opinion is based on the following evidence:
- no "minimal" audit assurance opinions were again given this year, and only one "limited" audit assurance;
  - income or expenditure errors were only recorded in two audit and were very low in value;
  - 48% of recommendations followed up were signed off by the audit team and a further 41% were being progressed;
  - no significant issues were arising from the pandemic specific testing carried out;
  - collaborative working with managers on 3 wider work areas in the year is leading to improved control and efficiency;
  - progress has been made on 2 issues highlighted last year:
    - ✓ clarifying the ICT security policies for the Council and reviewing methodologies available to continuously disseminate messages to employees;
    - ✓ carrying out stock condition surveys and implementing asset management plans.
    - ✓ strengthening budgetary control arrangements in a few teams to assist the Living within our Means agenda;
30. Other issues highlighted last year where progress has been made but work is still needed are:

- (a) Rolling out training and support for contract management, including where IT systems are provided by a third party in the Cloud.
  - (b) Strengthening debt collection and write off processes in a number of services.
  - (c) Carrying out stock condition surveys and implementing asset management plans.
  - (d) Fully embedding the new system for managing costs associated with housing repairs or moving to an alternative system.
  - (e) Rolling out the new action management system to services to improve the management of recommendations arising from audit reports and updating the data available on the level of implementation.\*
  - (f) Replacing the system to host the employee gifts and hospitality register, supported by the launch of the revised policy.\*
31. Additional areas noted this year where further action will enhance the adequacy and effectiveness of governance, risk management and control include:
- (a) Reconvene the annual risk management meetings with Heads of Service, and pilot the production of a streamlined monitoring report.\*
- These issues had already been recognised by managers and they are working to address them.
32. The issues above marked with an asterisk have been included in this year's Annual Governance Statement.

### **AUDIT SERVICE QUALITY ASSURANCE**

33. As required by the Public Sector Internal Audit Standards (PSIAs), the service has developed a documented Quality Assurance and Improvement Plan (QAIP) which consists of a self-assessment against the standards, on-going monitoring arrangements and local performance measures.
34. The QAIP is designed to provide reasonable assurance to its key stakeholders that the service: performs its work in accordance with its Charter; operates in an effective and efficient manner; is perceived by its key stakeholders as adding value and improving the service that it provides.
35. The PSIAs require the Head of Internal Audit to report on the outcomes of the QAIP each year which is covered by the following sections.

### **Audit Independence**

36. In conformance with PSIAs 1110, it is confirmed that that the internal audit activity was organisationally independent. This is assessed on the basis that the Head of Finance and Audit reported functionally to the Audit and Governance Committee during the year and had free and unfettered access to the Chief Executive Officer and Chair of the Committee.

37. Whilst there is a potential conflict from the dual role of Head of Finance and Head of Audit there are compensating controls which are set out in the Audit Charter as follows:

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

38. The arrangements laid out in the Audit Charter were adhered to in the year.

### **Self-Assessment against the Standards**

39. Our self-assessment against the Public Sector Internal Audit Standards this year continued with our rolling review of conformance with 5 standards (16 parts) selected by the reviewing officer. It should be noted that there are 106 parts making up the 52 standards.
40. The review this year covered the following standards:

1220	Due Professional Care
1322	Disclosure of Non-Performance
2120	Risk Management
2330	Documenting Information
2500	Monitoring Progress

41. No areas of non-conformance were found.
42. Our self-assessment for 2020/21 therefore concluded that we have fully conformed to 49 [49 last year] of the 52 applicable standards with partial conformance with the other 3.
43. Instances of non, or part conformance are given in [Appendix D](#); we are now down to those where no further action is planned to improve conformance. Due to the compensating controls documented, none of the areas are considered significant enough for reporting in the Annual Governance Statement.

### **Compliance with the CIPFA Statement on the Role of the Head of Internal Audit**

44. During 2019/20 FBC performed a self-assessment of its compliance with the

requirements listed within the latest CIPFA Statement on the Role of the Head of Internal Audit, as part of the annual Quality Assurance Improvement Programme (QAIP).

45. Overall it was found that FBC complied fully with 47 out of 51 requirements (92%) and partially complied with 3 requirements (6%); the area of non-compliance related to the 5-yearly external review of audit quality, as already highlighted in [Appendix D](#). A few areas of action were identified and added to the QAIP action plan.
46. This was followed up in 2020/21 and progress with the action plan is continuing to be made. In particular, the audit plan for 2021/22 now clearly includes reviews on some major projects; programmes; and policy initiatives, and new and developing systems.

### Local Performance Measures

47. Three local performance measures were used for the service in 2020/21, as discussed below.

#### Completion of Plan

48. The first measure covers the amount of planned work that is finalised by the time of the Annual Report. The level of completed work is high, which given the effect of the pandemic on audit and auditee resources is a significant achievement.

<b>Completion of Plan</b>	<b>2020/21</b>	<b>2019/20</b>	<b>2018/19</b>	<b>2017/18</b>
% of reports finalised by time of Head of Audits Report	89% (17/19)	95% (21/22)	78% (18/23)	70% (19/27)

#### Time Taken to Deliver Assignments

49. The second measure covers the length of time between the initial audit scoping meeting with the customer and the provision of a final report for the work. This is a known area of weakness for the service and there has been a drop in performance this year, mainly due to the impact of the pandemic.

<b>Time Taken</b>	<b>2020/21</b>	<b>2019/20</b>	<b>2018/19</b>	<b>2017/18</b>
Average number of calendar months between start and finish of audits finalised since the last annual report. (Number of audits in the measure)	6 (19)	5.1 (23)	3.4 (20)	6.3 (14)

#### Customer Feedback

50. The third measure covers customer feedback. We now use a face to face interview with an auditor not involved in the assignment in order to obtain feedback. 13 interviews have been completed since the last report and a score applied as shown in the table below.

Level of Customer Satisfaction	2019/20	2018/19	2017/18	2016/17
Audit was above expectations	15% (2)	14% (2)	7% (1)	-
Happy with the audit	77% (10)	86% (12)	79% (11)	66% (10)
Minor problems with the audit	8% (1)	-	7% (1)	27% (4)
Significant problems with the audit	-	-	7% (1)	7% (1)

No trends in areas for improvement were identified this year.

## RISK ASSESSMENT

51. The Head of Audit's Opinion above highlights those significant control issues where it is recommended that action is taken.

## CONCLUSION

52. This annual audit report contains the information required by the Public Sector Internal Audit Standards. The opinion offered within it, is that the Council continues to have a good framework of governance, risk management and control which has been maintained appropriately during the Pandemic response and recovery phases.

### Appendices:

- A. Results of Planned Assignments 2020/21
- B. Results of Planned Assignments from previous years not available last year
- C. Additional Sources of Assurance this year
- D. Areas of Non-Conformance with the Public Sector Internal Audit Standards

**Background Papers:** None

### Reference Papers:

Report to Audit and Governance Committee on 11/03/19 on the Internal Audit Strategy

Report to Audit and Governance Committee on 19/10/20 on Head of Audit's Annual Opinion 2019/20

Quarterly audit reports to the Audit and Governance Committee during 2020/21

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

Chartered Institute of Public Finance and Accountancy (CIPFA) 2019 – Statement on the role of the Head of Internal Audit (HIA) in public service organisations.

### Enquiries:

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

APPENDIX A

RESULTS OF PLANNED ASSIGNMENTS 2020/21

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included	New Recommendations			Previous Recs. (E and I only)			
						Errors Found? Y/N	Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
<b>FUNDAMENTAL SYSTEM AUDITS</b>												
Benefits (1204)	4	15	Strong	↔ 17/18	Still at draft stage	N	-	-				
Income Management (1205)	10	15	Reasonable	↔ 17/18	07/21	N	-	2	1	-	1	2
Accounts Receivable (1206)	10	15	Strong	↔ 17/18	07/21	N	-	1	6	-	-	-
<b>SERVICES &amp; SYSTEMS – HIGH RISK</b>												
Democratic Representation and Management (including members allowances and expenses) (1207)	10	12	Strong	↔ 13/14	07/21	-	-	-	2	-	-	-
Household Waste Collection (1200)	10	10	Strong	↔ 15/16	03/21	N	-	3	-	-	-	3
Recycling (1199)	10	8	Strong	↔ 15/16	03/21	N	-	2	-	-	-	-
Parking Enforcement (1208)	10	10	Strong	↑ 15/16	07/21	N	-	1	-	-	-	-
Solent Airport Operating Contracts (1201)	7	15	Reasonable	No previous opinion	07/21	Y	-	3	-	-	-	-
<b>SERVICES &amp; SYSTEMS – Other</b>												
Service Charges and Recharges - Council Tenants (1203)	10	15	Strong	↑ 18/19	07/21	N	-	-	2	-	-	-
<b>CORPORATE, SPECIALIST GOVERNANCE &amp; RISK</b>												
Construction Industry Tax Scheme (CIS) (1211)	10	5	Strong	↔ 08/09	03/21	N	-	-	-	-	-	-
<b>COMPUTER AUDITS</b>												
Benefits and Local Tax Computer Systems (1209)	10	15	Strong	↔ 06/07	07/21	N	-	1	-	-	-	-

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included	New Recommendations			Previous Recs. (E and I only)			
						Errors Found? Y/N	Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
<b>Internet and Email access (1210)</b>	10	12	Reasonable	↔ 08/09	07/21	N	-	4	-	-	-	-
<b>FOLLOW UP</b>												
<b>Cloud (1212)</b>	10	8	Reasonable	↑ 18/19	07/21	N	-	-	4	-	11	3
<b>Tenancy Management (1213)</b>	10	5	Strong	↑ 19/20	03/21	N	-	-	4	-	-	1
<b>Safeguarding (1202)</b>	10	5	Limited	↔ 19/20	07/21	N	-	-	-	-	2	4
<b>Housing Rents (1214)</b>	10	6	Reasonable	↑ 19/20	03/21	N	-	-	4	-	1	1
<b>WIDER WORK</b>												
<b>Targeted Assistance with Recommendation Implementation – Contract Deeds</b>	10	-	N/A		03/21	N/A	-	-	7	1	2	1
<b>Contract Management</b>	Audit Postponed											
<b>Disabled Facilities Grants - grant certification 2019/20</b>	Audit Cancelled											
Social Media Monitoring by services	8	-	N/A		Still at draft stage	N/A	-	2	-	-	-	-
<b>Procurement Card Testing (Added)</b>	8	-	N/A		07/21	Y	-	5	-	-	-	-

**APPENDIX B**

**RESULTS OF PLANNED ASSIGNMENTS FROM PREVIOUS YEARS NOT FULLY AVAILABLE FOR LAST YEAR'S OPINION OR UPDATED**

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
Computer Audits												
<b>Recording of Sickness through the HR 21 system</b>	10	10	Reasonable	No previous audit	03/21	N	-	1	-	-	-	-
Corporate Assurance Work (Wider Work)												
<b>Risk Inspection of Public Areas</b>	10	-	N/A	No previous audit	03/21	N/A	1	4	-	-	-	-

ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

<p><b>Audit Team overview of systems of control during the Pandemic</b></p>	<p>Continued identification and documenting the justification of changes in financial controls arising from responding to the Covid-19 pandemic.</p> <p>Leading on design of emergency processes including : Invoice flow, post opening, cash office banking, collection of payments over the phone from home, strengthened monitoring of property debt collection rates.</p> <p>Assisting with the Council's response to the Covid Procurement directives</p> <p>Advice and support given to the teams designing the business grant and test and trace grants processes – including fraud risk assessment and design of pre and post payment processes.</p> <p>Completion of counter fraud checks built into the business grants process and follow up of investigations arising.</p> <p>Advice and support given to the management of the council's financial sustainability monitoring, recovery plan and production of revised budgets.</p>
<p><b>Reactive work undertaken by the Team</b></p>	<p>Contribution to internal investigations</p>
<p><b>Other work undertaken by the team</b></p>	<p>Involvement in the new finance system tender evaluation, and part of the core implementation team.</p> <p>Review and response to fraud alerts issued by the National Anti-Fraud Network</p> <p>Monthly used of bank wizard tool to verify changes to bank account details on the Council's supplier database.</p> <p>Review of the IT leavers process</p> <p>Self- assessment of the control environment as part of the Crime Insurance policy renewal</p>
<p><b>Other sources</b></p>	<p>Compilation of evidence for the Annual Governance Statement</p> <p>Partnership for South Hampshire audit by Southampton CC (June 2021)</p> <p>6 monthly risk management reports (March 2020 report only)</p> <p>Attendance at Corporate Financial Forecasting and Medium -Term Finance Strategy meetings</p> <p>Lead or attendance on project team meetings concerning Welborne, Tree Management, Debt Collection, emergency planning and the Collection Fund.</p>

## APPENDIX D

### Areas of Non-Conformance with the Public Sector Internal Audit Standards

<i>Standard</i>	<i>Area of Non-Conformance</i>	<i>Comments</i>
1100 Independence and Objectivity (part)	The Chief Executive Officer and Chair of the Audit and Governance Committee do not formally feed into the performance appraisal of the Chief Audit Executive.	<p><b>No further action proposed</b></p> <p>Informal mechanisms are in place for concerns about independence and performance to be raised. Regular meetings occur between the Section 151 Officer and the Head of Finance and Audit [HFA]. There are also regular one to ones between the Chief Executive Officer and Section 151 Officer and an annual one to one between the Chief Executive Officer and the HFA.</p> <p>The HFA has access to the Chair and Vice chairs of the Audit and Governance Committee during the quarterly chairman briefings and can approach them directly should she have any concerns. They can also raise any concerns they have with the performance of the internal audit service.</p>
1312 External Assessments	No external assessments are currently included in the Quality Assurance and Improvement Plan.	<p><b>No further action proposed</b></p> <p>Given the current financial climate it is unlikely that we would want to incur additional costs to pay for an independent external verification of our self-assessment. However, our audit partners completed an external assessment in 2017/18 which provides us with assurance on their processes.</p> <p>The in-house team do monitor any feedback on conformance to the standards received from the external auditors, and the internal audit partners.</p> <p>We have also introduced peer discussions in the Hampshire Audit managers group in which one authority presents how they comply with a section of standards and leads a discussion on the strengths and weaknesses of their approach.</p>
2020 Communication and Approval (part)	The entire internal audit activity's plan and resource requirements were not presented to senior managers in addition to the board for review.	<p><b>No further action proposed</b></p> <p>The Audit and Governance Committee is responsible for endorsing the Annual Plan of work which the Deputy Chief Executive Officer as the Section 151 Officer has previously reviewed. Other Directors are consulted on coverage in the plan for their department and receive information on the proposed Annual Plans and any changes to these before approval and are invited to provide feedback.</p>



# FAREHAM

## BOROUGH COUNCIL

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

**Date:** 12 July 2021  
**Report of:** Director of Support Services  
**Subject:** REVIEW OF WORK PROGRAMME

#### **SUMMARY**

This report reviews the current work programme for the Committee.

#### **RECOMMENDATION**

It is recommended that the Committee that the Audit and Governance Committee approve the work programme for the rest of the municipal year, as shown in Appendix A to this report.

## **INTRODUCTION**

1. This report brings the latest work programme for review by the Committee.

## **WORK PROGRAMME 2021/22**

2. The progress on the work programme for the year is shown in Appendix A. This shows the reports expected in relation to each of the functions of the Committee along with an update on the delivery of the programme.
3. There have been two changes to the programme approved in the March 2021 meeting.
4. The first change is that the draft Statement of Accounts will now be brought to the September meeting rather than the July meeting. This is due to the meeting date being brought forward 2 weeks. The deadline to publish the draft accounts is the end of July. A copy of the draft accounts will therefore be circulated to members of the Committee before they are published.
5. The second change is that the External Auditors Audit Results Report will now be brought to the November meeting rather than the September meeting. The External Auditors have written to all bodies they audit under the PSAA agreement setting out their plans to delay some external audits in order to maintain the quality of their audits. Fareham Borough Council's external audit is one that has been scheduled for later coverage in the year than originally planned.
6. This will also mean that the Annual Auditor's Report will be pushed back from September to March 2022.

## **RISK ASSESSMENT**

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

## **CONCLUSION**

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

**Background Papers:** Letter from Ernst and Young LLP - Scheduling high-quality 2020/21 local public audits - 1 June 2021

**Reference Papers:** Report to the Audit and Governance Committee – 15 March 2021 - Annual Report of the Committee

Accounts and Audit Regulations 2021

### **Enquiries:**

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

## WORK PROGRAMME FOR 2021/22

Committee Function and Report Subject		Frequency	Last Covered	July 2021	Sept 2021	Nov 2021	March 2022
<b>OVERALL PURPOSE AND ACCOUNTABILITY</b>							
Review of Work Programme and training plan		Quarterly	2020-21	YES	YES	YES	YES, and Annual Report for 2020/21
Review of the Functions of the Committee		3 yearly	2019-20				
<b>GOVERNANCE, RISK AND CONTROL</b>							
Corporate Governance & AGS	Local Code of Corporate Governance	As needed	2016-17				
	<b>Annual Governance Statement</b>	Annual	2020-21	YES			
Risk Management	Policy	As needed	2016-17				
	<b>Risk Management Monitoring Reports</b>	6 monthly	2019-20		YES		YES
	Business Continuity	3 yearly	2018-19				
	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				
	<b>Anti-Bribery Policy</b>	As needed	2011-12			YES	
	Sanctions and Redress Policy	As needed	2016-17				
	<b>Counter Fraud Annual Report</b>	Annually	2020-21	YES			
Partnerships	<b>Partnership Governance Report</b>	As needed	2020-21		YES		
<b>AUDIT</b>							
Internal Audit	Internal Audit Strategy	3 yearly	2018-19				
	<b>Internal Audit Annual Plan</b>	Annual	2020-21	YES (delayed from March)			YES

Committee Function and Report Subject		Frequency	Last Covered	July 2021	Sept 2021	Nov 2021	March 2022
	<b>Internal Audit Progress Report</b>	Quarterly	2020-21	<b>YES</b>	<b>YES</b>	<b>YES</b>	<b>YES</b>
	<b>Head of Audit's Annual Opinion</b>	Annual	2020-21	<b>YES</b>			
External Audit	Arrangements for Appointment of External Auditors	As needed	2018-19				
	<b>Annual Plan and Fee</b>	Annual	2020-21	<b>YES</b> (delayed from March)			<b>YES</b>
	<b>Annual Auditor's Report and VFM commentary</b>	Annual	2020-21				<b>YES</b> (delayed from September)
	<b>Annual Certification Report</b>	Annual	2020-21				<b>YES</b>
	<b>Specific reports from inspection agencies</b>	As needed	2018-19 (RIPA)		<b>YES</b>		
<b>FINANCIAL REPORTING</b>							
<b>Statement of Accounts</b>		Annual	2020-21		<b>YES</b> (delayed from July)		
<b>External Audit – Audit Results Report</b>		Annual	2020-21			<b>YES</b> (delayed from July)	
<b>WIDER FUNCTIONS OF THE COMMITTEE</b>							
Standards and Ethics	Review of Code of Conduct for Members	As needed	2015-16				
	Review of member / officer protocol	As needed	2008-09				
	<b>Annual Ombudsman Reports and Overview of Complaints against members</b>	Annual	2020-21		<b>YES</b>		
	<b>Review of Members Training and Development Programme</b>	Annual (New)	2020-21				<b>YES</b>
Treasury Management	<b>Treasury Management Strategy and Indicators</b>	Annual	2020-21			<b>YES</b>	<b>YES - Policy and indicators</b>
Key Policy Review	<b>Annual Review of the Constitution</b>	Annual	2020-21			<b>YES</b>	
	Review of Financial Regulations	3 yearly	2019-20				
	Review of Procurement and Contract Procedure Rules	3 yearly	2020-21		<b>YES</b>		
	<b>Prevention of the Facilitation of Tax Evasion</b>	As needed	NEW			<b>YES</b>	

Committee Function and Report Subject		Frequency	Last Covered	July 2021	Sept 2021	Nov 2021	March 2022
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				7	8	7	9

