

# FAREHAM

BOROUGH COUNCIL

## AGENDA

### AUDIT AND GOVERNANCE COMMITTEE

**Date:** Monday, 13 March 2023

**Time:** 6.00 pm

**Venue:** Collingwood Room - Civic Offices

**Members:**

Councillor Ms F Burgess (Chairman)

Councillor R Bird (Vice-Chairman)

Councillors Mrs T L Ellis

H P Davis

N R Gregory

D J Hamilton

S D Martin

**Deputies:** Ms C Bainbridge

M R Daniells



**1. Apologies**

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

To confirm as a correct record the Minutes of the Audit and Governance Committee meeting held on the 21 November 2022.

**3. Chairman's Announcements**

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

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

**5. Deputations**

To receive any deputations of which notice has been lodged.

**6. External Audit - Audit Results Report and Statement of Accounts (Pages 9 - 62)**

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

**7. Treasury Management Strategy (Pages 63 - 86)**

To consider a report by the Deputy Chief Executive Officer on the Treasury Management Strategy for 2023/24.

**8. Risk Management Monitoring Report (Pages 87 - 98)**

To receive a report by the Head of Finance and Audit on the Risk Management Monitoring providing evidence that the risk management policy is effective.

**9. Head of Audits Quarterly Report (Pages 99 - 122)**

To consider a report by the Head of Finance on Audit on the internal audit work since the last meeting.

**10. Monitoring Officer Report (Pages 123 - 150)**

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



P GRIMWOOD  
Chief Executive Officer

Civic Offices  
[www.fareham.gov.uk](http://www.fareham.gov.uk)  
03 March 2023

**For further information please contact:  
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[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, 21 November 2022

**Venue:** Collingwood Room - Civic Offices

**PRESENT:**

**Councillor** Ms F Burgess (Chairman)

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

**Councillors:** J M Englefield, N R Gregory, D J Hamilton, S D Martin and  
M R Daniells (deputising for Mrs T L Ellis)

**Also  
Present:**



**1. APOLOGIES**

An apology of absence was received from Councillor T Ellis.

**2. MINUTES**

RESOLVED that the Minutes of the Audit and Governance Committee held on the 26 September 2022 be signed and agreed as a correct record.

**3. CHAIRMAN'S ANNOUNCEMENTS**

The Chairman made the following announcement regarding the appointment of the Council's External Auditors –

*Members of the committee will be aware that the Council needs to retender for our External Audit provider to cover the core audit work from 2023/24 to 2027/28. Members approved the Council "opting into" the national tender process organised by Public Sector Audit Appointments (PSAA) which has now been concluded.*

*In October PSAA advised the Council that they wish to appoint Ernst and Young to carry on as the external auditor for Fareham Borough Council. As part of this appointment we have been forewarned to expect a fee increase of over 150% which would take the fee to over £201,000 a year. The fee discussions will be concluded in 2023.*

*Due to the timescales in which we were asked to respond to the appointment, the issue has been discussed with officers, myself as Chairman and the vice-chairman and we have agreed to accept the appointment. This was mainly on the basis that those few Councils who did not opt into the two PSAA processes have either failed to appoint or have not achieved any greater savings on their contracts.*

*We have, however, also agreed that the Section 151 Officer should work with a wider group of Councils to actively respond to the Public Sector Audit Appointments (PSAA) consultation on the scale fees proposed for the contract when asked.*

*The Leader of the Council has been made aware and this will be highlighted as a spending pressure in the Medium-Term Finance Strategy report to the Executive.*

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

There were no declarations of interest made at the meeting.

## **5. DEPUTATIONS**

No deputations were received at the meeting.

## **6. RISK MANAGEMENT MONITORING AND BUSINESS CONTINUITY UPDATE**

The Committee received a report by the Head of Finance and Audit on the six-monthly Risk Management Monitoring report. The report also, included the 3-yearly update for Members on the work undertaken to maintain adequate business continuity arrangements which was presented to the Committee by the Head of Environmental Health.

Following the Chairman's announcement which provided details of the appointment of the Council's External Auditors. Members raised concerns over the significant rise in fees and how this links to the risk documented on page 14 in the report with regards to the External Audits Opinion, as this risk is due to the Statement of Accounts not being published by the statutory deadline. Members asked if this increase in fees will mean that the External Auditors will meet the deadlines under the new contract. The Deputy Chief Executive Officer advised that the expectation will be that due to the fee increases imposed on the Council, future deadlines will be met and if they are not officers will ensure that this is challenged as a breach of contract.

RESOLVED that the Committee: -

- a) reviewed the report as a source of evidence that the current Risk Management Policy is operating in practice; and
- b) note the progress to date and the ongoing work that is being undertaken in the development and implementation of the Council's business continuity arrangements.

## **7. TREASURY MANAGEMENT STRATEGY**

The Committee received a report by the Deputy Chief Executive Officer on the Council's Treasury Management Strategy. The report set out the mid-year review of treasury management activity up to 30 September 2022 which confirms compliance with the strategy approved by Full Council on 25 February 2022.

A typo was brought to the attention of the Committee on page 33 of the agenda pack. The 'Private' Works Loan Board should in fact read 'Public' Works Loan Board.

RESOLEVD that the Audit and Governance Committee: -

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

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

The Committee received the quarterly report from the Head of Finance and Audit.

RESOLVED that the Committee note the progress of the Internal Audit work.

## **9. MONITORING OFFICER REPORT**

The Committee received the Monitoring Officer Report from the Monitoring Officer. The report is set out in two parts. Part One provides details of items for noting and Part Two sets out those items for approval or endorsement.

Members were asked to consider a tabled item which had been circulated prior to the meeting. An amendment to Part Two of the report is required as an update to the Council's Constitution is needed following an amendment to the Members Allowance Scheme. The Committee were asked to consider that the updated document be added to the Constitution and recommend to Council for endorsement. Officers highlighted to Members that the Committee are being asked to consider the amendment to the Constitution and not the change to the Members Allowance Scheme itself as these scale increases are permitted outside of the decision-making process.

RESOLVED that the Audit and Governance Committee:

- a) note the contents of Part One of the report; and
- b) considered the amendments to the Constitution set out in the tabled item at Part Two and recommend to Council for endorsement.

## **10. STATEMENT OF ACCOUNTS**

The Committee received the draft Statement of Accounts report by the Deputy Chief Executive Officer. Members were requested to formally approve the unaudited Statement of Accounts for 2021/22 attached at Appendix A to the report. Following the audit, the audited Statement of Accounts will be presented to the Audit and Governance Committee along with the Audit Results Report in January 2023.

RESOLVED that the Audit and Governance Committee approve the unaudited Statement of Accounts for 2021/22, attached as Appendix A, for publication by 30 November 2022.

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



# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 13 March 2023

**Report of:** Deputy Chief Executive Officer

**Subject:** EXTERNAL AUDIT - AUDIT RESULTS REPORT

#### SUMMARY

The Committee is asked to consider the External Auditor's Audit Results Report (Appendix A), summarising the findings from the audit of the 2021/22 accounts.

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

#### RECOMMENDATION

It is RECOMMENDED that: -

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

**Background and Reference Papers:** None

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



Fareham Borough  
Council  
Audit results report  
Year ended 31 March 2022

February 2023



28 February 2023

Dear Audit and Governance Committee Members

2021/22 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit and Governance Committee. We will update the Audit and Governance Committee at its meeting scheduled for 13 March 2023 on further progress to that date and explain the remaining steps, and timeline, to issue our final opinion.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Fareham Borough Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 13 March 2023.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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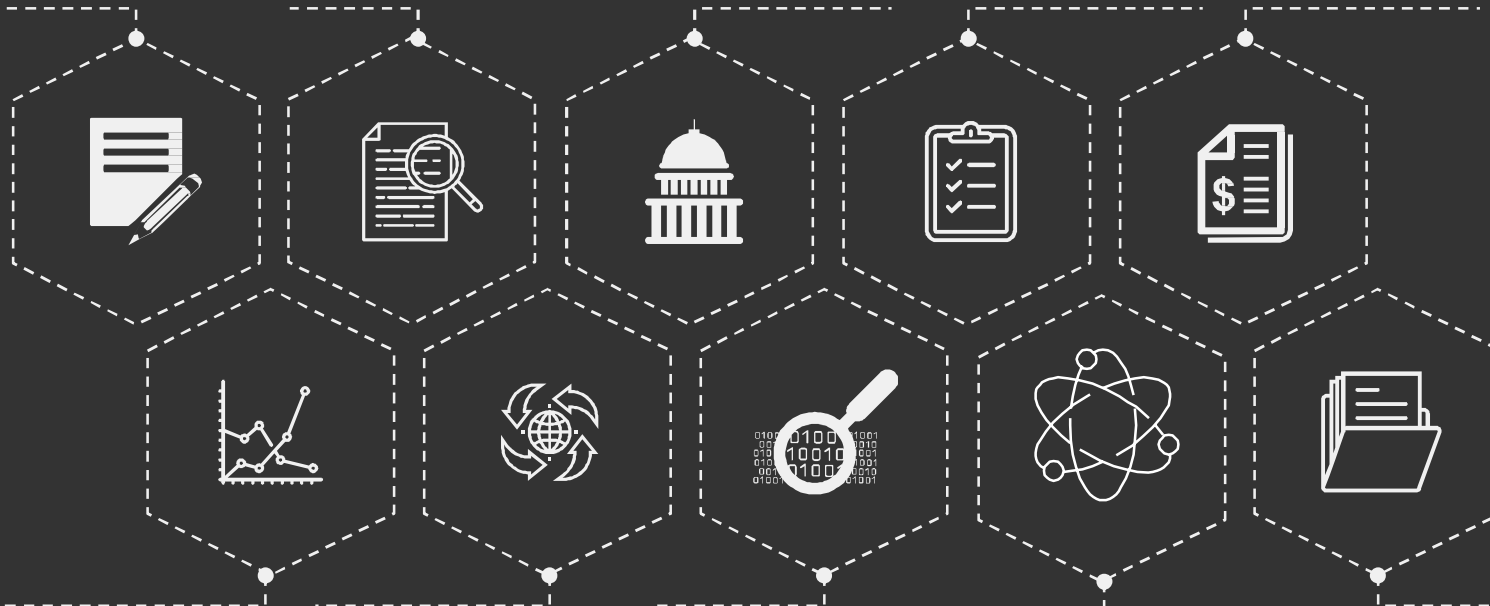
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities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

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

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



# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report presented to the Audit and Governance Committee meeting on 26 September 2022, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following amendments:

### Changes in materiality

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

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 2% of gross expenditure on provision of services, adjusted for any unusual items.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We report all uncorrected misstatements relating to the primary statements greater than 5% of planning materiality.
Planning	£1.348 million	£1.011m	£0.067m
Final	£1.390 million	£1.043m	£0.07m

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### Investment property valuations – increased risk to significant

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. However, some property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. In light of this, in our outline Audit Planning Report issued in June 2022, we reduced the risk on investment property valuations from significant to higher inherent risk.

Upon receipt of the valuation reports from the external valuers we revisited our risk assessment and whilst the investment property portfolio has remained unchanged, there was a £8m (c.13%) increase in valuation, coupled with a change in external valuer who would not necessarily be familiar with the Council's portfolio and may have taken a different valuation approach or made different critical assumptions. We therefore raised a significant risk in relation to investment property valuations.

### New finance system – increased risk to significant

Through our discussion with management and also through our walkthroughs performed, we understand that apart from the change in Trial Balance (TB) codes, the majority of the functions in the Council's new finance system are more advanced and effective. We also understand that all of the transactions from 1 April 2021 to 20 March 2022 was recorded in the old system. On 21 March 2022 when the new system was fully implemented, all transactions from the old system was transferred to the new system and the production of TB is via the new system. Therefore, there is a risk that the migration does not include all transactions and/or that the transactions are migrated at the incorrect amount or to the incorrect part of the accounts



# Executive Summary

## Scope update (continued)

### Accounting for infrastructure assets – no longer an area of focus

The gross cost of infrastructure non-current assets are material in the financial statements. Once an item of property, plant and equipment has been recognised and capitalized, an authority may incur further costs on that asset at a later date. The accounting treatment requires such subsequent expenditure to be capitalized to the value of the asset where these costs meet the recognition criteria. Where the subsequent expenditure represents the replacement of a component, the Code requires the old component to be written out of the Balance Sheet. There is a need for the Council to ensure that it has recognised and accounted for such subsequent expenditure appropriately.

Through the inspection of the 2021/22 draft accounts and our updated risk assessment, we have removed this risk from our audit plan as there is no capital spending in infrastructure in 2021/22. We have reviewed the historic spend by reviewing of the Council's accounts post 2010 (when IFRS was applied) from the audited accounts published on the Council's website. This shows that the gross spend since the adoption of IFRS is not material, and therefore, the Council cannot have a material issue with expenditure potentially replacing previous assets/components, and not derecognising the previous component.

### Covid-19 grants – re-instated as an area of focus

Whilst still significant, 2021/22 saw a reduction in the level of government funding in relation to Covid-19. Furthermore, 2021/22 was the second year of this significant funding stream for the Council and the expectation was that management would be more familiar with the accounting for these type of grants in the current year. In light of this, in our outline Audit Planning Report issued in June 2022, we removed the accounting for Covid-19 grants as a risk.

Through our review of the 2021/22 draft accounts, we were not able to reconcile management's working papers to the grant income note in relation to Covid-19 grants which was due to a miscommunication regarding the information required and we re-instated Covid-19 grants as an area of focus.



# Executive Summary

## Status of the audit

We have substantially completed our audit of Fareham Borough Council's financial statements for the year ended 31 March 2022 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Valuations testing – our work on assets valued using Depreciated Replacement Cost (DRC) is complete. Our work on assets valued using Existing Use Value (EUV) and investment properties is currently underway with outstanding queries with the Council for a number of properties.
- Review of creditors and payroll testing performed
- Completing our testing in the areas of Grants RIA. Grant income including covid-19 grants, expenditure, journal entries and related party transactions
- Resolving a number of queries on income testing performed, HRA disclosures and information relating to the change in accounting system
- Update of our subsequent events procedures to the date of our opinion
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

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

## Auditor responsibilities under the new Code of Audit Practice 2020

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

The specified reporting criteria are:

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



# Executive Summary

## Status of the audit – Value for Money

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

Our work on the Value for Money commentary to be included in the Auditors Annual Report has been significantly completed. We can confirm at this stage we have not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

Recognising the pressures in the local audit system, the NAO's guidance for 2021/22 allows the Auditors Annual Report to be issued 3 months after giving the opinion on the financial statements

## Audit differences

Details on audit differences can be found in Section 4 Audit Differences

## Other reporting issues

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

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based.

We have no other matters to report.

## Objections

We have not received any objections to the 2021/22 accounts from members of the public.

# Executive Summary

## Areas of audit focus

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

Fraud Risk	Findings & Conclusions
Misstatements due to fraud or error	Our work in this area remains in progress. To date we have not identified any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Our sample testing of additions to Property Plant and Equipment (PPE): <ul style="list-style-type: none"> <li>• Found costs had been correctly classified as capital and included at the correct value.</li> <li>• Did not identify any revenue items that were incorrectly classified as capital.</li> </ul> Our review of judgements taken by management found them to be reasonable.
Significant Risk	Findings & Conclusions
Valuation of Investment Properties	Our work in this area is remains in progress. We currently have queries on 8 remaining properties for which we are awaiting a response from the internal valuer.
New finance system	Our work in this area is remains in progress. We are awaiting information relating to the change in accounting system from the finance team in order for us to progress our work.



## Executive Summary

### Areas of audit focus (continued)

Area of audit focus / Inherent risk	Findings & Conclusions
Valuation of Land and Buildings	<p>Our work in this area remains in progress as at 28 February 2023. Further details are set out in Section 2 of this report.</p> <ul style="list-style-type: none"><li>• Assets valued using DRC is complete with one error identified in relation to Westbury Manor land valuation.</li><li>• For assets valued on a EUV basis, testing is currently underway.</li></ul>
Pension Liability Valuation (Inherent risk)	<p>Our planned work in this area is complete. One adjustment of £74k to decrease the pensions asset has been communicated as a result of our work. Further details are set out in Section 2 of this report.</p>
NNDR Appeals Provision (inherent risk)	<p>The work on this area is complete with one error identified which overstated the NNDR appeals Provision by £395k. This was due to an error on the Council's working paper which produced the NNDR 3.</p>
Accounting for Covid-19 related government grants (Inherent risk)	<p>Our work in this area remains in progress. The Council's initial working paper for Covid-19 grants did not agree to the draft accounts. Testing commenced once we were provided with a reconciliation and updated working paper, and is in progress. Further details are set out in Section 2 of this report.</p>



# Executive Summary

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## Control observations

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

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

## Independence

Please refer to Section 08 for our update on Independence.



# 02 Areas of Audit Focus



# Areas of Audit Focus

## Fraud risks

Misstatements due to fraud or error

### What is the risk?

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

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

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

### What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified Significant risk - Inappropriate capitalisation of revenue expenditure

### What did we do?

We carried out the following procedures:

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

### What are our findings & conclusions?

Based on our work completed to date we have not identified any:

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



## Fraud risks (continued)

Inappropriate capitalisation of revenue expenditure

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

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.

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### What did we do?

Our approach focused on the following:

- ▶ We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise as per IAS 16 through agreement to evidence such as invoices and capital expenditure authorisations.
- ▶ We reviewed REFCUS spend but this was immaterial (£793k) for 2021/22 and therefore did not provide the incentive or opportunity to materially capitalise revenue expenditure inappropriately.

### What are our conclusions?

Our sample testing of additions:

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

Our review of judgements taken by management found that:

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

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





## Areas of Audit Focus

### Significant risk

#### Valuations of Investment Property (IP)

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

The value of Investment Properties represents a significant balance in the Council's accounts and is 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.

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. However, some property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value.

Whilst the IP portfolio has remained unchanged, there has been a £8m (c.13%) increase in valuation, coupled with a change in external valuer who would not necessarily be familiar with the Council's portfolio and may have taken a different valuation approach or made different critical assumptions.

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

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuer in performing its valuation and challenged the key assumptions used by the valuer and also ensure that all IP has been revalued in-year.
- Tested accounting entries have been correctly processed in the financial statements.
- Commissioned EY Real Estates (EYRE), our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets. Sampling focussed on unexpected fluctuations in valuation year-on-year and assets more susceptible to market volatility



## Areas of Audit Focus

### Significant risk

#### What are our findings & conclusions?

Fareham has a balance of £68m investment properties. We selected £58m (20 assets) to test based on a judgemental sampling approach. We have identified these based on the type of property and our review of the movements. We have then reviewed the population to ensure that all types of the investment properties have been sample tested. We engaged our specialists to review 6 of these assets.

Six properties reviewed by our specialists fell within our expected range but is still subject to Partner review and there is a response to our queries outstanding with the Council's internal valuer for the remaining asset. Partner review will commence once all valuation queries have been responded to.

Our local testing of 7 of the remainder of the assets is complete with no material differences identified in valuation based on the inputs we were able to verify. However, queries remain on the lease income figure and the site area for these assets.

Of the other remaining assets tested by the audit team, for 7 assets we are awaiting responses to our valuation queries from the Council's internal valuer.



# Areas of Audit Focus

## Significant risk

### New Finance System

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

The Council has implemented a new finance system from 1 April 2022 which was used to prepare the 2021/22 financial statements.

We understand that apart from the change in Trial Balance (TB) codes, the majority of the functions in the Council's new finance system are more advanced and effective. We also understand that all of the transactions from 1 April 2021 to 20 March 2022 was recorded in the old system. On 21 March 2022 when the new system was fully implemented, all transactions from the old system was transferred to the new system and the production of TB is via the new system. Therefore, there is a risk that the migration does not include all transactions and/or that the transactions are migrated at the incorrect amount or to the incorrect part of the accounts

#### What did we do?

We

- Met with officers to discuss and understand the process for implementing the new accounting system i.e. a walkthrough.
- Reviewed the actions taken by the Council to ensure the complete and accurate migration of financial data to the new general ledger. This includes reviewing the effectiveness of reconciliation processes. We undertook our own testing on the completeness and accuracy of data migration.
- Enquired regarding internal audit involvement in the data migration to determine the work they performed.
- Reviewed how data from the new system maps to the statement of accounts, as part of our understanding of the accounts production process for 2021/22.

#### What are our conclusions?

We are still awaiting the Council's data migration information (pre and post migration reconciliation and process notes) in order to complete our procedures and to conclude on this area of work.



# Areas of Audit Focus

## Area of audit focus

Valuation of operational Land and Buildings

### What is the risk?

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

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

Our work in this complex area is still ongoing. To date we:

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used by the valuer.
- Tested accounting entries have been correctly processed in the financial statements.
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code.
- Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated.
- Commissioned EYRE, our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of EUV assets. Sampling focussed on unexpected fluctuations in valuation year-on-year.



## Areas of Audit Focus

### Area of audit focus

#### What are our findings & conclusions?

FBC has an other land and buildings balance of £110.5m, with £99.9m revalued in 21/22.

£56m of this is based on an EUV valuation. We have judgementally selected £45m of this for testing, selecting assets based on size as well as anything that has not moved in line with our expectations. We have then ensured that we have tested at least one of each type of asset. We referred Daedalus and Faraday Business Park, with a total valuation of £32.4m, to our specialists EYRE for review and this value fell within our expected range but this conclusion is still subject to Partner review which can only commence once all our queries have been responded to. Local testing of the remaining assets are underway.

The work on DRC assets is complete, with one misstatement identified in relation to the land value for Westbury Manor. The valuer used £1.2m per acre to determine the land value but the appropriate value per acre was £500k based on comparable land in the same location, resulting in an overstatement of £365k.



# Areas of Audit Focus

## Area of audit focus

### Pension Liability Valuation

#### What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body. The Council's current pension fund deficit is a material and sensitive item 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 administering body. Accounting for this scheme involves significant estimation and judgement. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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

We:

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Fareham Borough Council.
- Assessed the work of the Pension Fund actuary (Aon) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office (NAO) for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- In accordance with the ISA540 (revised) standard, we tested the actuarial model to confirm it is appropriately designed, consistently applied and mathematically accurate. We involved our EY Pensions specialists to perform this work

#### What are our findings & conclusions?

- We obtained assurances from the auditors of Hampshire County Council Pension Fund that the information supplied to the actuary in relation to Fareham Borough Council was accurate and complete. We have identified a non-material difference on the gross pension asset, arising from differences between the actuaries values and amount estimated from the Council's share of the final audited pension fund assets. The difference is £74k.
- We have concluded that we could rely on the work of the Pension Fund actuary, and assess their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.
- We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions.
- We have confirmed the values and entries from the actuarial report have been correctly reflected in the Council's financial statements.
- The results of the EY pensions specialist has confirmed the actuarial estimate of the gross pension liability to be accurate within a reasonable range.



# Areas of Audit Focus

## Area of audit focus

### NNDR Appeals Provision

#### What is the risk?

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

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

#### What judgements are we focused on?

We focused on the following:

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

#### What did we do?

- Reviewed the calculation of the provision for accuracy;
- Considered the work performed by the Council expert, Analyse Local and understood the assumptions used in their calculation;
- Ensured the Council has amended the provision appropriately for any Business Rate reliefs awarded;
- Performed post year-end review of appeals settled to determine whether the revised rateable value and effective date of the appeal are in line with the provision; and
- Ensured that the Council has considered local appeal rates and outstanding appeals when calculating its provision for business rates appeals.



## Areas of Audit Focus

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### Area of audit focus

#### What are our conclusions?

We have reviewed the calculation of the provision and identified a difference of £395k between the Council's working paper and the draft accounts. It was noted that there was an error on the working paper which produced the NNDR 3 which was then used to process the journals in the draft accounts, leading to the difference identified. This is the fourth consecutive year we identified misstatements within management's NDR Appeals provision calculation.

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

We confirmed that the Council amended the provision for any business rates reliefs awarded.

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





# Areas of Audit Focus

## Area of audit focus

Accounting for Covid-19 related government grants

### What is the risk?

Whilst still significant, 2021/22 saw a reduction in the level of government funding in relation to Covid-19. Furthermore, 2021/22 was the second year of this significant funding stream for the Council and the expectation was that management would be more familiar with the accounting for these type of grants in the current year.

Through our review of the 2021/22 draft accounts, we were not able to reconcile management’s working papers to the grant income note in relation to Covid-19 grants which was due to a miscommunication regarding the information required and we re-instated Covid-19 grants as an area of focus.

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

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

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

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

### What are our findings & conclusions?

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

Our work in this area is underway. We will provide the Audit Committee with a verbal update at the 13 March meeting.



# 03 Audit Report



# Audit Report

## Draft audit report

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

#### Our opinion on the financial statements

##### Opinion

We have audited the financial statements of Fareham Borough Council for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement and the related notes 1 to 34, the Housing Revenue Account Income and Expenditure Statement, the movement on the Housing Revenue Account Statement, the notes to the Housing Revenue Account, and the Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

##### Basis for opinion

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

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

##### Conclusions relating to going concern

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

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

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

##### Other information

The other information comprises the information included in the Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive officer is responsible for the other information contained within the Statement of Accounts 2021/22.

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

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



# Audit Report

## Draft audit report

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

#### Our opinion on the financial statements

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects.

#### Responsibility of the Deputy Chief Executive officer

As explained more fully in the Statement of Responsibilities set out on page xx, the Deputy Chief Executive officer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

#### Auditor's responsibilities for the audit of the financial statements

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



# Audit Report

## Draft audit report

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

#### Our opinion on the financial statements

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

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

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

- Local Government Act 1972,
- Local Government and Housing Act 1989 (England and Wales),
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020 and 2022,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948) ,
- The Local Audit and Accountability Act 2014 (as amended),
- The Accounts and Audit Regulations 2015,

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

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

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

To address our fraud risk of management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

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



# Audit Report

## Draft audit report

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

#### Our opinion on the financial statements

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criterion issued by the Comptroller and Auditor General in December 2021, as to whether the Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

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

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

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

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

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

Use of our report

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



# 04 Audit Differences





# Audit Differences

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

## Summary of adjusted and uncorrected differences

We highlight the following misstatements greater than £1.39m which have been corrected by management that were identified during the course of our audit. To date there are no such items to report.

We report to you any uncorrected misstatements greater than our nominal value of £70k.

There are five misstatements to bring to your attention at the time of writing this report, based on the preliminary findings of our local audit team and the Pension Fund auditors

- Overstatement of the NNDR Appeals Provision of which Fareham’s share is £395k
- Understatement of NNDR Arrear Debtors of £136k
- Overstatement of Westbury Manor Land valuation of £365k
- Decrease to pensions asset (£74k)
- Understatement of creditors (£959k)

Depending on the findings from the outstanding areas of audit testing, there is a risk that the cumulative impact of errors may become material and require adjusting.

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





05

## Value for Money



# Value for money

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

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

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

## Risk assessment

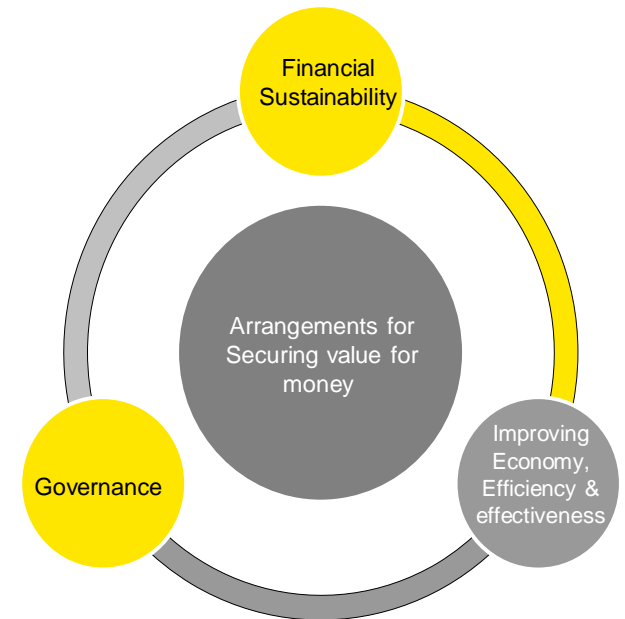
We have previously reported to the Council in our Audit Plan that our assessment of the risk of significant weaknesses in the Council's VFM arrangements remained ongoing. At this stage of completion of our procedures, we have not identified any risks of significant weaknesses in the Council's arrangements.

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## Status of our VFM work

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

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





## 06 Other reporting issues

## Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Financial Report 2021/22 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Narrative Statement and published with the financial statements was consistent with the audited financial statements

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based. The audit certificate will be issued once this work is complete.

### Other powers and duties

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

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fareham Borough Council's financial reporting process. We have no other matters to report.



07

# Assessment of Control Environment

# Assessment of Control Environment

## Financial Controls

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

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

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



# 08 Data Analytics

## Data analytics – Journal Entries

### Analytics Driven Audit

#### Data Analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2021/22, our use of these analysers in the Council's audit included gaining a deeper understanding of the data sources which are used in each Significant Class of Transactions and therefore allowing us to tailor our testing accordingly dependant on the nature of the source entries. We tested specific journal entries which we deem to have the highest inherent risk to the audit, including unusual transactions not consistent with the rest of the population.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.





09

# Independence

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

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

#### Services provided by Ernst & Young

The next page sets out a summary of the fees that are relevant to the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

As at the date of this report, we have provided services as a reporting accountant for the Department of Work and Pensions Housing Benefit Assurance Process (HBAP) in respect of the subsidy claim to 31 March 2022.

## Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit & Governance Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Council.

As part of our reporting on our independence, to the right we set out a summary of the fees you have paid us in the year ended 31 March 2022.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Scale Fee	37,137	37,137	37,137
Scale Fee Rebasing (1)	24,902	24,902	8,367
Revised Proposed Scale Fee	62,039	62,039	45,504
Scale Fee Variation (2)	TBC	18,000	25,182
Total Audit Fee	TBC	80,039	70,686
Non Audit Fees – HBAP (3)	TBC	14,000	N/A

(1) As detailed in our 2020/21 Auditor's Annual Report we submitted a proposed rebasing of the scale fee for £24,902. PSAA have approved the 20/21 Scale Fee Variation (including rebasing element) as shown. We continue to record the same rebasing figure for 21/22 as we submitted for 20/21.

(2) For 2021/22, the scale fee will be impacted by a range of factors which has resulted in additional work. The issues we have identified which will impact on the fee include:

- The need to engage EY Pensions to review assumptions used in the Pensions IAS19 liability. Estimated value £1,000.
- Work to review the impact of the new finance system implementation. Estimated value £2,000
- Additional work required for PPE and IP valuations, including the involvement of EYRE
- Additional fee for changes in audit requirements: VFM and ISA 540 (estimates)
- Errors and amendments identified in section 4 above and any further errors identified during our completion of the outstanding areas highlighted in section 1.

(3) Our final fee will be driven by the level of errors identified and subsequent additional work requirements to drilldown into these errors. We are currently in the early stages of working on the 21/22 HBAP engagement. We were not the reporting accountant in 20/21.

## Other communications

### EY Transparency Report 2022

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

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






# 10 Appendices

## Appendix A

# Required communications with the Audit and Governance Committee

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


			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Audit & Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – June 2022	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report – June 2022	
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 – February 2023	

# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The appropriateness of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Fareham Borough Council’s ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <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>• Material misstatements corrected by management</li> </ul>	Audit Results Report – February 2023
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit &amp; Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report – February 2023
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the audit 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>• Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit &amp; Governance Committee responsibility.</li> </ul>	Audit Results Report – February 2023

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <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>	 <p>Audit Results Report – February 2023</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <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 Results Report – February 2023</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>We have received all requested confirmations</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the Audit &amp; 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 committee may be aware of</li> </ul>	<p>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	<p>We have not identified any significant deficiencies in internal controls</p>



# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report – February 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report – February 2023
Auditors report	<ul style="list-style-type: none"> <li>Key audit matters that we will include in our auditor’s report</li> <li>Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	Audit results report – February 2023 No such circumstances identified

# Draft management representation letter

## Management Rep Letter

This letter of representations is provided in connection with your audit of the financial statements of Fareham, Borough Council ("the Council") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Fareham Borough Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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

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

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22. We have approved the financial statements.

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

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. **We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].**

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

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

# Draft management representation letter

## Management Rep Letter

- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

#### 1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

3. We have made available to you all minutes of the meetings of the Council and committees held through 2021/22 to the most recent meeting of the Audit and Governance Committee held on.....[to be completed].

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter at 14 March 2022 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

# Draft management representation letter

## Management Rep Letter

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 49 to the financial statements all guarantees that we have given to third parties.

### E. Going Concern

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

### F. Subsequent Events

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

### G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.

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

### H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the financial statements.

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, aligned with the statements we have made in the other information or other public communications made by us.

### I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

### J. Use of the Work of a Specialist

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

### K. Estimates

1. We confirm that the significant judgments made in making the estimates for pension liabilities and the valuations of property, plant and equipment and investment properties have taken into account all relevant information of which we are aware

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

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

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.

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



## Appendix B

# Draft management representation letter

### Management Rep Letter

#### L. Retirement benefits

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

Yours faithfully,

\_\_\_\_\_  
Andrew Wannell, Deputy Chief Executive officer

\_\_\_\_\_  
Councillor Frair Burgess, Chairman of the Audit and Governance Committee

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ED None

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# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 13 March 2023

**Report of:** Deputy Chief Executive Officer

**Subject:** TREASURY MANAGEMENT STRATEGY

#### SUMMARY

Regulations require the Council to prepare and formally approve an annual Treasury Management Strategy. The document for 2023/24, attached as Appendix A, was endorsed by the Executive on 6 February 2023 and submitted to Full Council for approval on 24 February 2023.

CIPFA published revised versions of its Treasury Management Code of Practice and the Prudential Code in December 2021. The Strategy produced for 2023/24 addressed the changes to the content required in this document. Areas of note are:

- A new prudential indicator, the **liability benchmark**, has been added in paragraph 48, and shows the lowest risk level of borrowing for the Council.
- In the past 12 months, the Council's investment balance has ranged between £21 million and £38 million; lower levels are expected in the forthcoming year due to capital programme expenditure (paragraph 7).
- The Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income (paragraph 16).
- Borrowing levels are expected to be £52.2 million at the end of 2023/24 to fund the capital programme (paragraph 31).
- The Council has previously raised all of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield (paragraph 39)

- The economic and interest rate forecast by the Council's treasury advisors has been updated as at January 2023 (paragraph 56 and Annex 1).

## **RECOMMENDATION**

It is RECOMMENDED that the Committee note the Treasury Management Strategy and Prudential Indicators for 2023/24, attached as Appendix A to this report.

**Appendices: Appendix A:** Treasury Management Strategy and Investment Strategy 2023/24

**Background Papers:** None

**Reference Papers:**

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

CIPFA The Prudential Code 2021

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

Template for Treasury Management Strategy and Investment Strategy 2023/24 provided by Arlingclose (the Council's current Treasury Advisers)

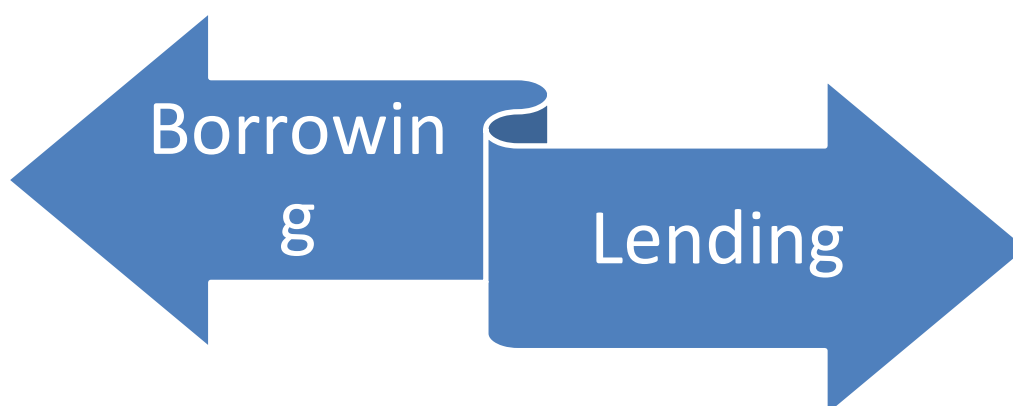
**Enquiries:**

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



# B

## TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY 2023/24





# INTRODUCTION

## WHAT IS TREASURY MANAGEMENT?

1. Treasury Management is defined as:

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

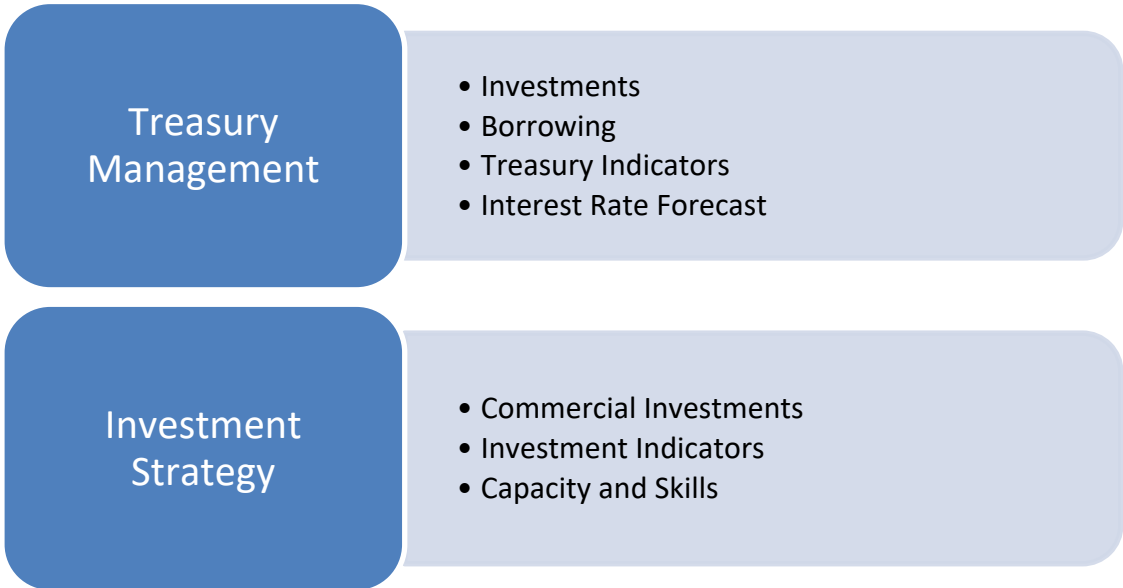
*the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.*

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

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

## CONTENT OF THE TREASURY MANAGEMENT AND INVESTMENT STRATEGIES

3. These strategies set out the expected approach to treasury management and investment activities for 2023/24. It covers two main areas:



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

## REPORTING REQUIREMENTS

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



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

# TREASURY MANAGEMENT STRATEGY

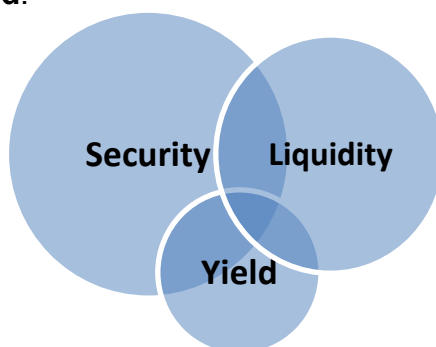
## INVESTMENTS

### Current Portfolio Position

7. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £21 million and £38 million, lower levels are expected in the forthcoming year due to capital programme expenditure.

### Treasury Investment Strategy

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



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

### Approved Counterparties

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

table below, subject to the limits shown.

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

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

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

## **Operational Bank Accounts**

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

## **Risk Assessment and Credit Ratings**

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

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

## Other Information on the Security of Investments

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

## Investment Limits

24. The Council's revenue reserves available to cover investment losses are forecast to be £5 million on 31st March 2023. In order to minimise risk, in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be **£5 million**. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
25. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as in the table below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

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



## Liquidity Management

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

## Environmental, Social and Governance Policy

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

## BORROWING

### Current Portfolio Position

- 31. The Council’s borrowing position at 31 March 2022, with forward projections are summarised below.

£'000	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt at 1 April	53,200	50,200	52,200	51,200	50,200
Expected change in debt	(3,000)	2,000	(1,000)	(1,000)	(2,000)
<b>Gross Debt at 31 March</b>	<b>50,200</b>	<b>52,200</b>	<b>51,200</b>	<b>50,200</b>	<b>48,200</b>

- 32. Debt at 31 March 2023 is projected to be lower than originally estimated due to the use of internal borrowing rather than borrowing externally to fund the capital programme.

### Borrowing Strategy

- 33. The Council’s main objective when borrowing money is to strike an appropriately low risk balance between **securing low interest costs** and achieving **certainty of**

**those costs** over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

34. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
35. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short term to either **use internal resources**, or to **borrow short-term** loans instead.
36. By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and **reduce overall treasury risk**. The benefits of internal borrowing or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.
37. Our treasury advisers will assist the Council with this '**cost of carry**' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
38. The Council has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.
39. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield.
40. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
41. In addition, the Council may borrow further short-term loans to cover unexpected cash flow shortages.

## **Sources of Borrowing**

42. The approved sources of long-term and short-term borrowing are:
  - HM Treasury's PWLB lending facility (formerly the Public Works Loan Board).
  - Any institution approved for investments.
  - Any other bank or building society authorised to operate in the UK.
  - Any other UK public sector body.
  - UK public and private sector pension funds (accept the Hampshire County Council Pension Fund).
  - Capital market bond investors.

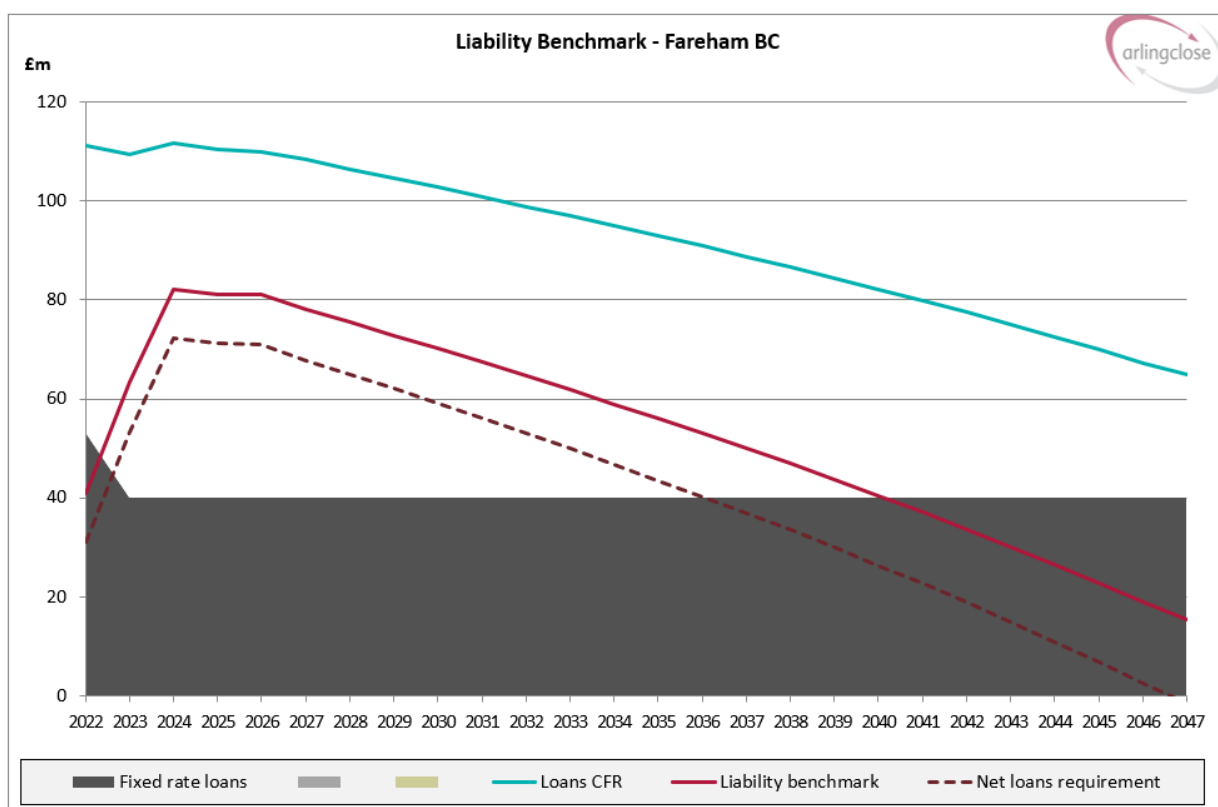
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.
43. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- Leasing
  - Hire purchase
  - Private Finance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

## TREASURY MANAGEMENT PRUDENTIAL INDICATORS

47. The Council measures and manages its exposures to treasury management risks using the following three treasury management indicators.
48. *Treasury Management Prudential Indicator 1 – Liability Benchmark:* To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.
49. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

£'000	31/3/22 Actual	31/3/23 Estimate	31/3/24 Estimate	31/3/25 Estimate	31/3/26 Estimate
Capital Financing Requirement	111,300	109,400	111,600	110,500	110,100
Less: Balance sheet resources	(80,400)	(56,000)	(39,400)	(39,300)	(39,100)
<b>Net loans requirement</b>	<b>30,900</b>	<b>53,400</b>	<b>72,200</b>	<b>71,200</b>	<b>71,000</b>
Plus: Liquidity allowance	10,000	10,000	10,000	10,000	10,000
<b>Liability benchmark</b>	<b>40,900</b>	<b>63,400</b>	<b>82,200</b>	<b>81,200</b>	<b>81,000</b>

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



51. If cash flows occur as forecast, the Council's level of existing borrowing remains below the liability benchmark for the next 17-18 years. This indicates a need for further external borrowing over this period, peaking at approximately an additional £40m by 2024 and then reducing over time.
52. *Treasury Management Prudential Indicator 2 – Long-term treasury management investments:* The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

£'000	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Limit on principal invested beyond year end	14,000	15,000	16,000	17,000	18,000

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

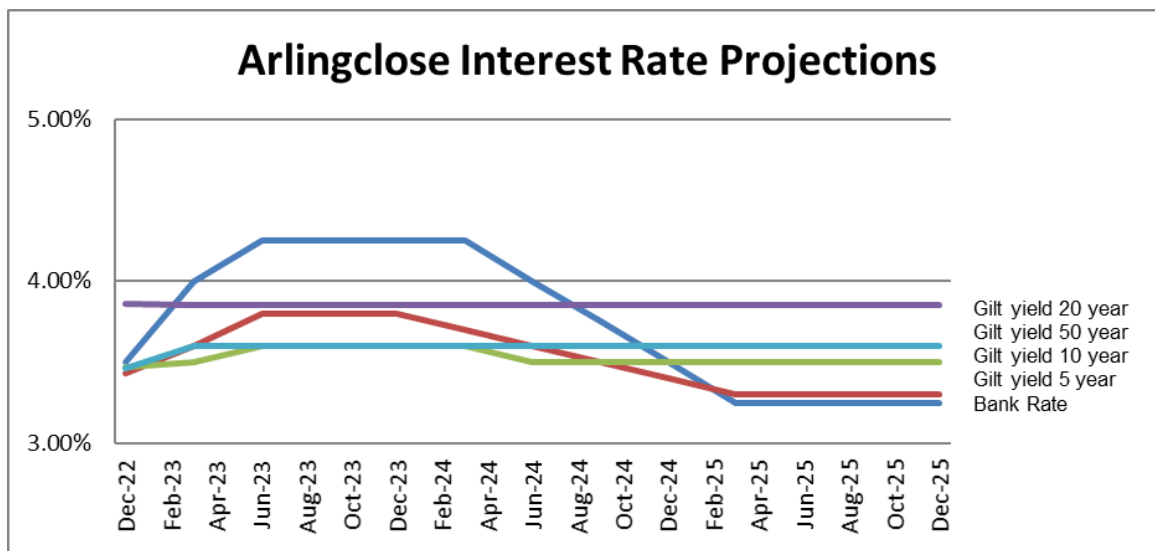
Maturity structure of borrowing	Upper Limit %	Lower Limit %
- Loans maturing within 1 year	50	0
- Loans maturing within 1 - 2 years	50	0
- Loans maturing within 2 - 5 years	50	0
- Loans maturing within 5 - 10 years	50	0
- Loans maturing in over 10 years	100	100

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

	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt £'000	49,268	49,268	49,268	49,268	49,268
HRA revenues £'000	14,228	13,208	13,744	14,170	14,477
Number of HRA dwellings	2,419	2,419	2,411	2,403	2,395
Ratio of debt to revenues	3.46:1	3.73:1	3.58:1	3.48:1	3.40:1
Debt per dwelling £	£20,369	£20,369	£20,437	£20,505	£20,573
Debt repayment fund £'000	£6,840	£7,980	£9,120	£10,260	£11,400

## INTEREST RATE FORECAST

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



58. Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.
59. While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.
60. Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

## Other Items

61. The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.
62. **Policy on Apportioning Interest to the HRA:** On 28 March 2012, the Council borrowed £40 million from the Public Works Loan Board (PWLB) to buy itself out of the HRA subsidy System. The monies were borrowed by the General Fund on behalf of the HRA. The interest on these loans is charged to the HRA on a half-yearly basis at the rate charged by PWLB. A further £9.268 million was lent by the General Fund to the HRA to complete the buyout. Interest on this element is charged at the average weighted rate of the PWLB loans.
63. The unfunded HRA capital financing requirement is also charged to the HRA at the average weighted rate of the PWLB loans.
64. The General Fund credits the HRA with interest earned on HRA credit balances calculated on the monthly movement in reserve balances and applied at year end. The rate used is the weighted interest rate on General Fund investments and cash balances.

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

## Financial Implications

66. The budget for net interest received in 2023/24 for the General Fund is £612,000 and the budget for net interest paid in 2023/24 for the HRA is £1,679,000. If actual levels of investments and borrowing, and actual interest rates differ from that forecast, performance against budget will be correspondingly different.

## Other Options Considered

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

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

# INVESTMENT STRATEGY

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

## COMMERCIAL INVESTMENTS

- 71. The Council invests in local and some regional UK commercial property with the intention of making a profit that will be spent on local public services.
- 72. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased commercial investment properties currently valued at **£35.7 million** and expected to generate rental income of £2.3 million during 2023/24.

Property Type	Current Value £'000
Retail	21,745
Commercial	11,730
Other	2,210
<b>Total</b>	<b>35,685</b>

- 73. The Council’s total Commercial property portfolio, shown below, is valued at **£68.3 million** and includes Fareham Shopping Centre, Faretec and industrial estates at Palmerston Business Park and Newgate Lane.

Property Type	Current Value £'000
Retail	34,045
Commercial	23,682
Other	4,388
Office	4,740
Leisure	1,481
<b>Total</b>	<b>68,336</b>

- 74. A fair value assessment of the Council’s more recent commercial property



purchases has been made within the past twelve months, and the underlying assets provide security for capital investment.

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

## Proportionality

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

£'000	2021/22 Actual	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Gross service expenditure	49,432	45,915	46,524	47,320	47,640	48,029
Investment income	4,476	4,463	4,222	4,758	4,758	4,758
<b>Proportion</b>	<b>9.1%</b>	<b>9.7%</b>	<b>9.1%</b>	<b>10.1%</b>	<b>10.0%</b>	<b>9.9%</b>

## INVESTMENT INDICATORS

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

£'000	2021/22 Actual	2022/23 Revised	2023/24 Estimate
Treasury Management Investments	22,189	15,000	15,000
Commercial Investments	68,336	68,336	68,336
<b>Total</b>	<b>90,525</b>	<b>83,336</b>	<b>83,336</b>

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

<b>£'000</b>	<b>2021/22 Actual</b>	<b>2022/23 Revised</b>	<b>2023/24 Estimate</b>
Treasury Management Investments	0	0	0
Commercial Investments	30,272	29,479	28,663
<b>Total</b>	<b>30,272</b>	<b>29,479</b>	<b>28,663</b>

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

	<b>2021/22 Actual</b>	<b>2022/23 Revised</b>	<b>2023/24 Estimate</b>
Treasury Management Investments	3.2%	4.1%	3.1%
Commercial Investments	3.3%	3.5%	3.7%
<b>Total</b>	<b>3.3%</b>	<b>3.7%</b>	<b>3.6%</b>

## **CAPACITY AND SKILLS**

### **Training**

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

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

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

## ARLINCLOSE ECONOMIC AND INTEREST RATE FORECAST

### Economic Background – January 2023

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even

further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

### **Credit outlook:**

Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

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

### **Underlying assumptions – December 2022**

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should

bear down on business pricing power – recent data suggests the UK has passed peak inflation.

- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight, and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short-term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

## **Forecast – December 2022**

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.



# FAREHAM

## BOROUGH COUNCIL

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

**Date:** 13 March 2023

**Report of:** Head of Finance and Audit

**Subject:** RISK MANAGEMENT MONITORING

#### **SUMMARY**

In March 2017, the Audit and Governance Committee approved a new Risk Management Policy based around a set of principles rather than a formal framework of registers. The policy requires evidence of risk management to be compiled every six months as proof that the policy is effective. This is the latest six-monthly report under the policy and completes the manager interviews for 2022/23.

#### **RECOMMENDATION**

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

## INTRODUCTION

1. In March 2017, the Audit and Governance Committee approved the latest Risk Management Policy based around a set of principles rather than a formal framework of registers. Under the process, discussions are held with managers to gather evidence that the new policy is being implemented. In particular, the policy would be considered to be effective if managers are able to discuss:
  - (a) what their top risks are and any new or changes in risks and opportunities that have occurred;
  - (b) actions that have been taken in the year to mitigate risks;
  - (c) incidents that have occurred and actions taken to manage the incident and prevent a repeat;
  - (d) risks and solutions shared with other services in the Council or discussed with Council experts in that subject.
2. The last progress report was compiled in November 2022. This report summarises the evidence gathered from the discussions which took place in December 2022 and January 2023 and completes the cycle for 2022/23.

## RISKS - MANAGERS COVERED BY THIS REPORT

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

Managers Interviewed for this report	Managers Interviewed for the last report
Head of Environmental Health (IR)	Head of Building Control Partnership (JS)
Head of Housing and Benefits (CN)	Head of Democratic Services (LU)
Head of Planning Strategy & Economic Development (GW)	Head of Development Management (LS)
Head of Asset Management (SF)	Head of Finance and Audit (EH)
<b>Solent Airport</b>	Head of Housing Delivery (RL)
Head of Strategic Sites (SW)	Head of Street Scene (MB)
Strategic Sites Development Officer (RH)	Welborne Strategic Lead (SW)
<b>Coastal Partnership Managers</b>	Leisure and Community Manager (EW)
Head of Coastal Partnership (LC)	Property Manager (IC)
Business Development Manager (JR)	<b>Corporate Services Managers – part one</b>
<b>Legal Partnership Managers</b>	Web and Social Media Manager (MP)
Head of Democratic Services (LU)	<b>Human Resources Officers</b>
Service Director (Solicitor to the Council) (RI)	HR Business Partner (SS)
Service Lead (Legal Partnership) (SR)	HR Business Partner (AG)
<b>ICT Managers</b>	
ICT User Support Manager (DM)	
Business Systems Manager (DS)	



<b>Corporate Services Managers – part two</b> Policy, Research and Engagement Manager (RB) Communications Manager (JL)	
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## STRUCTURE OF THE EVIDENCE GATHERED



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




## RESULTS OF THE RISK MANAGEMENT DISCUSSIONS

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





### Corporate Services (second part)

6. A discussion was held with the Policy, Research and Engagement Manager (RB); Financial Services Procurement Manager (RG); and Finance Apprentice (Audit) (DS) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Equality (success from last time):</b> Risk of failure to comply with the requirements of the Equality Act 2010 in relation to the updating and publishing of the Equality Policy objectives on the Council's website</p> <p>New more ambitious version published Autumn 2022 and valid until 2026. Members, managers and new joiner training planned.</p>	Appropriate Actions Taken
	<p><b>Interactions with members of the public:</b> Increased risk in the level of anger and offensiveness that officers are receiving from members of the public; for example at CAT meetings.</p> <p>Conflict resolution training has been given to relevant officers, and a risk assessment is carried out for each meeting.</p>	Appropriate Actions Taken




	<p><b>Carbon Footprint:</b> Risk of failure to deliver the 2030 Carbon neutrality commitment.</p> <p>Success relies on significant additional capital and revenue financing and may also require offsetting. Future technological developments may also help, however, we have no control over these.</p>	Actions in Progress
	<p><b>Consultation and engagement:</b> Risk that we do not reach interested groups during consultation.</p> <p>For example: those who are digitally excluded or just the impact of consultation fatigue/information overload. CAT meeting attendance also reported as lower than historically experienced. This could be seen as anti-democratic and risks reputation damage.</p> <p>Communications and engagement strategy being updated particularly in relation to engaging offline groups.</p>	Actions in Progress
	<p><b>Opportunity plan:</b> Risk of failure of opportunity plan work to close the funding gap.</p> <p>Includes successful projects which may become less successful over time such as garden waste renewals reducing. Also new opportunities will be more difficult to identify as the easier projects have been delivered.</p>	Actions in Progress

7. Another discussion was held with the Communications Manager (JL); Financial Services Procurement Manager (RG); and Finance Apprentice (Audit) (DS) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>CSC Telephony:</b> Risk that when the Customer Service Centre was transferred from the switchboard system to the new system there could be issues and a disruption of services.</p> <p>Actions taken with the IT team to produce a smooth transition.</p>	Appropriate Actions Taken
	<p><b>CSC Work From Home:</b> Risk of low employee availability to provide the service if team members unable to be in the office but had no system in place to allow them to work from home.</p> <p>Actions taken to have kits ready to drop off when someone needs it at home.</p>	Appropriate Actions Taken
	<p><b>Social Media Scare Story:</b> A complaint was made via social media regarding an allegation that products used by the Council was a safety risk for animals.</p> <p>The risks associated with the allegations were further investigated.</p>	Risk Occurred - Appropriate Actions Taken
	<p><b>Cancelled Events:</b> Due to the Queen's death and following mourning period some planned events had to be cancelled. There was a risk that the notification of this would not be spread wide enough to inform the public of the change.</p> <p>Communications plan invoked which set out appropriate points of contact to be used.</p>	Risk Occurred - Appropriate Actions Taken



## Environmental Health




8. A discussion was held with the Head of Environmental Health (IR); Finance Business Partners (HT and LJ); and Head of Finance and Audit (EH) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Drug Testing:</b> Risk that taxi drivers could be under the influence of drugs.</p> <p>The council is introducing drug testing as part of the new taxi application process and random testing of current drivers.</p>	<p>Appropriate Actions Taken</p>
	<p><b>Team Resources:</b> Risk of insufficient resources to deliver the services.</p> <p>There is currently an impact on resources of employees of a certain age having responsibilities for elderly relatives. There is also potential for a significant loss of highly experienced staff in the next few years due to the age profile.</p> <p>Succession plan is being implemented.</p>	<p>Actions in Progress</p>
	<p><b>Emergency Planning:</b> Risk of failure to adequately respond to national emergencies.</p> <p>Recent events and enquiry findings pose future strain on the Council's emergency response if current events continue. These pressures include covid variants, planned power cuts as a result of the Ukraine war, national strikes across all services, and indoor air pollution.</p> <p>Local Resilience Forum is leading on the management of the risks with active engagement from the Council as part of the Southampton and Portsmouth Emergency Planning Partnership</p>	<p>Actions in Progress</p>

## Housing and Benefits


9. A discussion was held with the Head of Housing and Benefits (CN); Finance Business Partner (KB); and Acting Senior Audit and Fraud Analyst (CR). Appropriate examples of risk management activity were covered. These included the following risks:




	<p><b>Tenants Living with Damp and Mould:</b> New risk of non-compliance with the Regulator of Social Housing (RSH) data requirements in relation to damp and mould in council run domestic properties.</p> <p>Damp and mould in properties is now being targeted by central government since the death of a child in Rochdale. Self-assessment against a 26-point plan must be undertaken, along with a Tenant Satisfaction survey to actively include all tenants.</p> <p>Monthly cross service project team meetings have started.</p>	<p>Actions in Progress</p>
	<p><b>National Asylum Seeker Dispersal:</b> Risk that we are unable to meet our obligations to house asylum seekers.</p> <p>As the Homes for Ukraine scheme comes to an end the access to housing and employment needs will pass to Local Authorities. We will also see increased numbers of asylum seekers in our area under a national initiative to spread this need rather than it being highly limited to Kent on arrival. Our current asylum population is 17, the December 2023 target is 89.</p>	<p>Actions in Progress</p>

	<p><b>Housing Benefit Subsidy External Auditor:</b> Risk that we are not able to appoint an external auditor to complete the housing benefit subsidy audit each year which could lead to the Department of Works and Pensions withholding subsidy payments (current value approximately £18million).</p> <p>Last year the external auditors pulled out from the agreement and we do not have a long-term agreement with an audit firm going forward. This is the first year that we will have missed the audited claim deadline.</p> <p>Ernst &amp; Young are completing the audit on the 2021/22 claim and have agreed in principle to complete the work for 2022/23. For the following year the allocation of audit firms to audited bodies is still under consultation.</p>	<p>Actions in Progress</p>
	<p><b>Homelessness Initiatives Funding:</b> Risk of funding no longer available for homelessness initiatives after 2025.</p> <p>The Rough Sleeping Initiatives bidding process has been completed and funding secured for 3 years programme of initiatives through until 2025. Initiatives include move-on accommodation, outreach work and complex needs navigator. The theory is that the work results in fewer rough sleepers as time goes on. However, the cost-of-living crisis is increasing demand at the same time and the Homelessness Fund will be fully depleted by significant rises in bed &amp; breakfast costs.</p>	<p>Appropriate Actions being taken but High Risk remains</p>
	<p><b>Vulnerability of Housing Team:</b> Increased risk of physical aggression from the public.</p> <p>This is an issue for a number of public facing services. There is an increasing risk to the safety of staff (and other members of the public) with incidents having occurred recently on the ground floor. Staff are collectively seeing higher levels of aggression and intimidating levels of behaviour, whilst recognising individuals have complex needs and that the impact of the cost-of-living crisis is causing financial anxiety.</p> <p>This has been recognised as a corporate issue and an action plan is being implemented recognising the increased risk which has included reviewing processes in the CSC, strengthening use of officer protection badges (with phone links to outside operator and police), reviewing the design of the furniture, provision of conflict management refresher training. Senior management to keep a watch on the risk and strengthen incident reporting.</p>	<p>Appropriate Actions being taken but High Risk remains</p>

## Planning Strategy and Economic Development




10. A discussion was held with the Head of Planning Strategy and Economic Development (GW); Finance Business Partner (GC); and Finance Apprentice (Audit) (DS). Appropriate examples of risk management activity were covered. These included the following risks:



	<p><b>Local Plan (Update):</b> Risk that the latest Local Plan is found to be unsound</p> <p>There have been two further consultations since the March 2022 hearing due to requested alterations to the proposed plan. These consultations have now been completed and the responses are with the planning inspector.</p>	<p>Appropriate Actions Taken</p>
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	<p><b>Housing Supply Penalties (Update):</b> Risk of failure to meet housing delivery 5-year targets which will result in the council facing penalties.</p> <p>Since January 2023 we have plans in place to meet the housing targets set for the borough. However, these are reliant on builders still wanting to build and the approval of new developments they propose.</p>	<p>Actions in Progress</p>
	<p><b>Support for Local Businesses:</b> Risk of failure to meet expectations in the support we are able to provide struggling businesses.</p> <p>Local businesses are likely to be facing increasing struggles to stay operational due to the economic downturn. They may turn to the council for help as part of expectations raised from the Council's ability to provide Covid business grants previously.</p> <p>Business EXPO organised for February 2023. Economic Development Startegy in development.</p>	<p>Actions in Progress</p>
	<p><b>Staff Resources:</b> Lack of current resources to deliver current services.</p> <p>Current loss of key staff due to promotion elsewhere, secondment, and maternity leave.</p> <p>Reviewing team capabilities and capacity and how to build in more resilience by buddying up and documenting procedures.</p>	<p>Appropriate Actions being taken but High Risk remains</p>

## Solent Airport and Daedalus






11. A discussion was held with the Head of Strategic Sites (SW); Strategic Sites Development Officer (RH); Finance Manager (CH), Finance Business Partner (GC); and the Head of Finance and Audit (EH) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Birds (Update):</b> Risk that development of the site is delayed due to a change in the designation of the Daedalus site by Natural England in relation to Bird Mitigation.</p> <p>The change in designation requires the Council to identify alternative sites to mitigate the impact of development on specific bird species. The first mitigation plan has been submitted for pre-application assessment. Challenge of the designation has also reduced the area of land covered.</p>	<p>Actions in Progress</p>
	<p><b>Airport Operating Costs:</b> Risk of operating costs increasing faster than the revenue streams to offset them.</p> <p>There has been success in driving up income streams at the site but these have been offset by increasing costs. Work completed to identify ways of reducing costs has had limited success. Actions taking to continue to understand the costs.</p>	<p>Actions in Progress</p>
	<p><b>Judicial Review:</b> Risk that judge finds fault with the Council's handling of a property developer.</p> <p>A property developer who wants to build on the airport site has submitted a case to court on the basis that his planning application failed due to lack of access to the site.</p> <p>Evidence has been provided to defend the Council's position in relation to this request.</p>	<p>Appropriate Actions being taken but High Risk remains</p>

	<p><b>Control Tower Visibility:</b> Risk that the Civil Aviation Authority (CAA) withholds licence due to poor visibility from the control tower.</p> <p>In the last annual inspection in the summer the CAA were critical of the compensating processes that the airport were using to overcome a lack of 360-degree visibility from the control tower.</p> <p>A plan of action has been drawn up, which includes an analysis of options, which will be the subject of a report to members.</p>	<p>Actions in Progress</p>
	<p><b>Airport Operator:</b> Risk that operator arrangements are not in place after 2026 or are not providing best value for money.</p> <p>The current operator contract finishes in 2026. Decisions will need to be made about the operating model going forward.</p>	<p>Actions in Progress</p>




## Coastal Management

12. A discussion was held with two members of the Eastern Solent Coastal Partnership (LC and JR); Finance Business Partners (GC and KJ); and Acting Senior Audit and Fraud Analyst (CR) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Fareham Quay Wall (Salterns Recreation Area):</b> Risk of coastal landfill increased due to delay in starting works.</p> <p>Urgent works were required to secure the safety of Fareham Quay Wall but could not be started until funding was in place. Funding was secured to deliver a cost-effective solution to protect the site and residents. The works have now been completed.</p>	<p>Appropriate actions taken</p>
	<p><b>Salt Marsh Creation:</b> Opportunity to create salt marsh habitat to offset losses with sea defence works elsewhere in the County.</p> <p>Funding has been obtained from the Environment Agency to look at salt marsh habitat creation at Hook Lake which could offset sea defences pressures on other areas of the Solent. There is a risk that salt marshes will turn into mud flats because of climate change. Loss of coastal grazing marsh means this has to be recreated elsewhere.</p>	<p>Actions in Progress</p>
	<p><b>Increase in Costs (Update):</b> Risk that budgets are insufficient due to the significant cost increase in construction materials arising from the crisis in Ukraine and the inflation increase.</p> <p>Some prices have levelled but are not returning to previous price levels. The Environment Agency is allowing some rebasing of grants on projects already started.</p>	<p>Actions in Progress</p>
	<p><b>Change of funding schemes :</b> Risk of external funding for projects changes making the format of bidding more difficult.</p> <p>It has become harder to bid for certain external funding sources. However, there may be some work arounds to help such funding bids in conjunction with universities, such as Southampton, which may be more successful.</p>	<p>Actions in Progress</p>
	<p><b>Loss of key staff:</b> Risk that if key members of staff leave the partnership it would be difficult to recruit replacement staff with the same experience and knowledge. Key risk on the service risk register as this could impact on the responses to failing assets.</p> <p>Actions taken to continually monitor the job market in the field.</p>	<p>Actions in Progress</p>




## Legal Services


13. A discussion was held with the Head of Democratic Services (LU); two members of the Legal Services Partnership (RI and SR); Finance Business Partners (HT); and Acting Senior Audit and Fraud Analyst (CR) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Covid Inquiry:</b> Risk of poor audit trail to respond to the Government's requests.</p> <p>Local Authorities are required to retain documentation relating to corporate decisions made during the pandemic. The Local Government Association is leading on what documents will need to be collated and submitted. However, the level of involvement for the Legal Partnership to respond to requests is unknown which could put a strain on existing resources in the future.</p>	<p>Actions in Progress</p>
	<p><b>Extended Partnership:</b> Risk that partnership not able to maintain level of service.</p> <p>Havant Borough Council is now part of the Legal Partnership. With the increased workload, and no extra partnership lawyers being recruited, there is a risk that it will become more difficult to meet crucial deadlines.</p>	<p>Actions in Progress</p>
	<p><b>Legal advice not provided on time (Update):</b> Risk that FBC employees don't pull in the legal experts when needed or do not give them sufficient time to consider an issue and respond, especially when preparing reports for the Executive.</p> <p>Some improvements noted following regular meetings with property and planning services but still further opportunities to improve include introducing similar review meetings with housing and onboarding for new starters who may be involved in report writing for formal decisions.</p>	<p>Actions in Progress</p>

## IT Services




14. A discussion was held with the ICT User Support Manager (DM); Business Systems Manager (DS); Finance Business Partner (HT); and Head of Finance and Audit (EH) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>Backup Security:</b> Actions taken to strengthen risk of ransomware attacks encrypting and corrupting FBC data and software backups.</p>	<p>Appropriate Actions Taken</p>
	<p><b>Mobile Device Data Allowance:</b> A problem was found that the council was incurring costs for exceeding their mobile phone data allowance.</p> <p>Costs challenged and refunds received. New processes in place to make sure device upgrades are being implemented promptly. Change to policy in terms of the specification for the phones.</p>	<p>Risk Occurred - Appropriate Actions Taken</p>
	<p><b>Physical space limitation:</b> Risk to physical safety of employees when building new PCs</p> <p>There is currently no designated safe space for IT staff when building new PCs and the lack of space makes them at risk from trip hazards and managing heavy equipment.</p>	<p>Actions in Progress</p>

	There are plans to designate a safe working area based on the proposed office reorganisation which will soon be in place.	
	<p><b>Home Working Assessments:</b> Risk that issues raised by employees about their working from home arrangements are not adequately followed up by managers.</p> <p>As part of home working there is a requirement for a DSL working assessment to be completed. It is the responsibility of managers to make sure these are completed and review any issues arising. Senior managers have commissioned an audit review to ascertain the situation.</p>	Further Action may be needed

## Asset Management

15.A discussion was held with the Head of Asset Management (SF); Finance Business Partners (CH and KJ); and Head of Finance and Audit (EH) and appropriate examples of risk management activity were covered. These included the following risks:

	<p><b>New Property Lettings:</b> Risk that new tenants cannot meet their lease obligations. (For example: payment of rent, service charges, repair obligations, alteration restrictions, cause problems on the site).</p> <p>Due diligence processes on new tenants strengthened, proportionate to the risk, and includes sign off by senior officers.</p>	Appropriate Actions Taken
	<p><b>Investment Properties:</b> Risk of income from Investment properties is not maximised.</p> <p>Includes minimising void periods and FBC costs associated with outgoing tenants of the investment properties.</p> <p>Formalised risk review process being implemented. RAG rating in place to support the deployment of resources to the reviews. Reviews include review of market conditions, lease terms, stability of tenants, and dilapidation negotiations.</p>	Appropriate Actions Taken
	<p><b>Succession Planning (Update):</b> Risk of loss of key staff affecting service delivery.</p> <p>Successful recruitment exercises recently including cross over period before a key member of the team retires.</p>	Appropriate Actions Taken

## APPENDICES

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

**Background Papers:** None

**Reference Papers:**



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

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

**Enquiries:**

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

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

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

# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 13 March 2023

**Report of:** Head of Finance and Audit

**Subject:** HEAD OF AUDIT'S QUARTERLY REPORT

#### SUMMARY

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

#### RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee: -

- a) notes the progress and findings arising from Internal Audit work; and
- b) approves the proposed full plan for the 2023/24 audit year as set out in Appendix Three.

## INTRODUCTION

1. This report provides the assurances arising from the latest internal audit work and gives an update on the progress being made with setting and delivering the audit plans.
2. The service continues to be affected by some loss of resources due to the loss of a few staff from both audit teams. However, recent recruitment has been successful and we expect to return to full complement at the beginning of May 2023.

## PROGRESS OF THE 2022/23 PLAN

3. Due to other priorities and auditee sickness, it has been agreed to postpone the Homelessness audit and the wider piece of work in Anti-Bribery Arrangements until 2023/24. However, the CCTV audit is being carried out as a replacement audit from the reserve list.
4. Work has commenced on 23 (92%) of the 25 audits in the revised internal audit plan, as noted in **Appendix One**, such that 11 of the audits have been finalised, 3 are at Stage 5 (a first draft of the report has been received by the Support Officer to be reviewed) and 8 are at Stage 4 (the Auditor has started to deliver the agreed scope of work).

## FINALISING PREVIOUS PLANS

5. There were five outstanding audits from the previous Audit Plans and one audit had been carried forward from last year's plan. Work has now been finalised in respect of the Building Health and Safety Risks audit from the 2016/17 plan.

## FINDINGS FROM COMPLETED AUDITS

6. 6 audits have been completed since the last report as highlighted in the table below. There are no significant findings to highlight.

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
Capital Expenditure and Accounting 2022/3	Strong	-	2	-
Facilities Management 2022/3	Reasonable	-	1	-
Community Centres 2022/3	Reasonable	-	3	-
Finance System Analytics 2022/3	N/A	-	1	-
Contract Management 2022/3	N/A	-	6	-
Building Health and Safety Risks 2016/7	N/A	-	-	-

## INTERNAL AUDIT PLAN 2023/24

7. 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'*.
8. The Annual Audit Plan provides a mechanism in which the Head of Finance and Audit utilises the available internal audit resources to produce the evidence needed to give an Annual Audit Opinion. The Annual Audit Opinion is a key source of evidence for the Annual Governance Statement.
9. Work has now been completed to bring a full proposed plan of work for 2023/4 to members for approval as set out in **Appendix Three**. The plan has been collated giving consideration to the following:
  - (a) Previous coverage of the whole audit universe for the Council (currently 163 subjects) and the Audit Strategy requirement to cover all fundamental system every 3 years and all High Risk audits every 5 years. (A copy of the Internal Audit Strategy is provided in **Appendix Four**).
  - (b) The Council's Corporate Strategy and key priorities, and internal policy and process changes and initiatives.
  - (c) Initiatives, changes and risks being highlighted through the Risk Management process and Medium-Term Financial Strategy; including projects being delivered through the Opportunities Plan.
  - (d) Governance, fraud or risk issues identified through the year from work carried out by the internal audit or finance teams; including horizon scanning for emerging local or national risks and themes.
  - (e) Trends and outstanding recommendations identified on the audit recommendation database.
  - (f) Consultation with the senior managers of the Council.
10. The following should be noted:
  - a) **Level of Opinion Audit:** There is provision in the plan for 185 days of individual audit opinion work plus time spent by the in-house team to support these audits. This meets the Strategy minimum of 180 days plus one audit (Housing Grants and Home Improvements) will mainly be using additional assurances derived from the Portsmouth City Council Audit Plan.
  - b) **Number of Assignments:** There are 22 discrete pieces of work included in the plan, plus 7 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 5 Fundamental Systems and 5 High Risk Audits. It also includes some coverage of key corporate projects as

required by the CIPFA Statement on the Role of the Chief Internal Auditor. This is being achieved by introducing at least one audit each year to look at capital expenditure.

Also included in a new annual audit of financial analytics, which was piloted last year, to give annual assurance on the activity within the new finance system.

### **Resourcing the Plan**

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

### **RISK ASSESSMENT**

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

### **Appendices:**

**Appendix One** – Audits in the 2022/23 Plan

**Appendix Two** – Reference Tables

**Appendix Three** – Proposed full Audit Plan for 2023/24

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

### **Background Papers:**

Head of Audit's quarterly report to the Audit and Governance Committee on 21<sup>st</sup> November 2022.

Report by the Head of Finance and Audit to the Audit and Governance Committee on 26 September 2022 on the Internal Audit Plan 2022/23

**Reference Papers:** None

**Enquiries:**

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

APPENDIX ONE

AUDITS IN THE 2022/23 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>												
Payroll key controls (1250)	5	5										
Finance System Data Analytics (1251)	10	15	N/A	No previous audit	March 2023	N	-	1	-	-	-	-
Bank Mandate Fraud (1252)	10	2	Reasonable	No previous audit	November 2022	N	-	1	-	-	-	-
Housing Rents (1259)	5	15										
Capital Expenditure and Accounting (1260)	10	10	Strong	↑ 18/19	March 2023	N	-	2	-	-	-	-
<b>SERVICE AND SYSTEMS – HIGH RISK</b>												
Building Control (1253)	4	N/A										
Chargeable Garden Waste Collection (1254)	10	10	Reasonable	No previous audit	November 2022	N	-	3	-	-	-	-
Homelessness	Postponed											
Service Charges and Recharges – Leaseholders (1262)	Not Started	15										
Community Centres (1263)	10	8	Reasonable	↔	March 2023	N	-	3	-	-	-	-
<b>SERVICES AND SYSTEMS - OTHER</b>												
Facilities Management (1264)	10	5	Reasonable	No Previous Audit	March 2023	N	-	1	-	-	-	-
Tree Review Implementation (1265)	1	12										
Markets (1266)	5	8										



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>COMPUTER – FUNDAMENTAL SYSTEMS</b>												
Corporate Software Suite (1267)	10	10	Strong	No previous audit	November 2022	N	-	1	-	-	-	-
Housing System - Post Implementation Review (1268)	4	15										
<b>CORPORATE, SPECIALIST, GOVERNANCE AND RISK</b>												
Data Sharing Agreements (1269)	4	15										
<b>WIDER WORK</b>												
Compliance with the Government Counter Fraud Professional Standard (1256)	10	-	N/A	N/A	November 2022	N/A	-	3	-	-	-	-
Process Flow for S106 Contributions (1270)	4	-										
Business Rates Refunds - Review of 2021/22 Extracts (1271)	4	-										
Anti-Bribery Arrangements (1272)	Postponed	-										
Contract Management (1273)	10	-	N/A	N/A	March 2023	N/A	-	6	-	-	-	-
NFI - Data Privacy Notices (1274)	10	-	N/A	N/A	November 2022	N/A	-	-	-	-	-	-
Annual Procurement Transaction Testing (1275)	Not started	-										
Targeted Assistance with Recommendation Implementation (1276)	4	-										
Government Grant Certifications (1277)	Non-standard audit - completed	-	N/A	N/A	November 2022	N	-	-	-	-	-	-
Combined Reception (1278)	4	-										
<b>RESERVE AUDITS</b>												

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
Information Flow in the Business Rates Team			-									
<b>CCTV (1261) NEW</b>	<b>4</b>	10										
Social Media Monitoring by Services Follow Up			-									
Pre-Application Advice Cost Comparison to Income			-									
PCI Compliance			-									
Remote Working and Confidentiality			-									

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

## APPENDIX TWO - Reference Tables

### Scale of Assurance Opinions

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

### 1. Scale of Recommendation Priorities

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

### 2. Stages of An Audit Assignment

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

### APPENDIX THREE - Full Internal Audit Plan 2023/24

	Type	Title	Dept-Lead Service	Days	Reason for Inclusion in Plan
	<b>OPINION WORK</b>				
1	Fundamental Systems	<b>Income Management</b>	DCX-Operational Finance, LC-Customer services	15	Fundamental system - last opinion given 2020/21. Some changes with integration to new finance system and implementation of new telephone payment system.
2	Fundamental Systems	<b>Main Accounting System &amp; Budgetary Control</b>	DCX-Operational Finance	15	Fundamental system - last opinion given 2017/18. Major finance system changes and new module introduced
3	Fundamental Systems	<b>Treasury Management</b>	DCX-Technical Finance	12	Fundamental system - last opinion given 2019/20.
4	Fundamental Systems	<b>Vehicle Management invoice management</b>	SS-Transport Repair Depot	15	Fundamental process in high risk service - previous recommendations to close down. New manager and purchasing system in place. Audit postponed from previous years.
5	Fundamental Systems	<b>Benefits</b>	DCX-Benefits	15	Fundamental system - last opinion given 2020/21.
6	Services and Systems - High Risk	<b>Homelessness</b>	DCX-Housing Options	15	High risk audit - last opinion given 2017/18. Unable to complete last year due to key manager absence.
7	Services and Systems - High Risk	<b>Housing Grants and Home Improvement Loans</b>	LC-Environmental Health	5	High risk audit last opinion given 2018/19 although grant certifications given in intervening years. Will be placing reliance on PCC audit plan coverage plus some follow up of previous recommendations and review of the changed Home Improvement Grant arrangements.
8	Services and Systems - High Risk	<b>Leisure Centres</b>	LC-Leisure	12	High risk audit - last opinion given 2017/18. Now combined audit covering both centres.
9	Services and Systems - High Risk	<b>Parking Income</b>	LC-Parking	12	High risk audit - last opinion given 2018/19. To include changes in coastal parking charges.
10	Services and Systems - High Risk	<b>Planning Applications</b>	PG-Development Control	12	High risk audit - last opinion given 2018/19. First Welborne applications expected in 2023/24.
11	Services and Systems - Other	<b>Service Charges - Civic Offices</b>	PG-Asset Management	8	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.
12	Services and Systems - Other	<b>Insurance</b>	DCX-Technical Finance	12	Process with a direct financial cost last audited 2013/14. To review cover and claims handling in preparation for next renewal process.

	Type	Title	Dept-Lead Service	Days	Reason for Inclusion in Plan
13	Computer - Fundamental System	<b>Local Government Software package</b>	DSS-ICT Services	10	Key IT system used by the Planning, Building Control, Environmental Health and Land Charges services - last opinion given 2003/04.
14	Computer - Key Risk	<b>Security and resilience of Council Networks</b>	DSS-ICT Services	12	Topical theme for cyber security assurance using guidance available from the government and National Cyber Security Centre. Also covering the use of funding provided this year
15	Corporate, Specialist, Governance & Risk	<b>Fareham Live</b>	LC-Leisure & Property Services	15	New rolling programme of testing of key areas of capital spending over £500k in a year
<b>Total Opinion Work</b>				<b>185</b>	
<b>WIDER WORK</b>					
16	Thematic review	<b>Annual Procurement transaction testing</b>	Cross Cutting		Focus of supplier analysis for the year will be responsive repairs and value for money analysis of spending from suppliers on the framework agreement. Includes verification that work paid for was completed and charged at the correct rate.
17	Fundamental Systems	<b>Key Finance System Data Analytics</b>	DCX-Operational Finance		New analysis of fundamental systems (accounts payable and accounts receivable) and new IT system. Second stage implementation of data analytic tests for the new finance system including targeted tests of control changes .
18	Collaborative Project	<b>Accuracy of VAT coding</b>	Cross Cutting		Sample transaction testing to give assurance on accuracy of income and expenditure VAT coding using the new finance system.
19	Counter Fraud - Data Matching	<b>Energy Rebates - data matching of 2022/23 payments</b>	DCX-Revenues		Data Analysis of energy rebates to check for duplicate bank accounts and match to employee bank accounts. Run through the controls and access restrictions in place
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. Audit brought forward from previous audit plans
21	Thematic review	<b>Home working - risk assessments and confidentiality arrangements</b>	Cross Cutting		Cross council review of completeness of home working risk assessments and confidentiality arrangements when working from home. Assurance for the new ways of working project
22	Corporate Assurance Work - FOLLOW UP	<b>Targeted Assistance with Recommendation Implementation</b>	Cross Cutting		To assist services with the implementation of recommendations each year. Subject for 2023/24 likely to be ICT audits to help finalise the information governance opinion

	RESERVE WORK IF TIME ALLOWS				
	Opinion Audit	<b>Petty Cash and Floats</b>	Cross Cutting		Last audit opinion given 2010/11. To review the use and security of remaining petty cash and floats- and also review the change of process using journals to post expenditure to the accounts.
	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.
	Follow up	<b>Social Media Monitoring by services Follow Up</b>	Cross Cutting		Short follow up of the findings in the Social media Monitoring audit
	Finance Strategy assurance	<b>Pre-application advice cost comparison to income</b>	PG-Development Management		Assist service in verifying the costs associated with providing pre-planning application advice compared to the charges made.
	Legal Compliance assurance	<b>PCI Compliance</b>	LC-Corporate		Updated opinion on compliance with Payment card Industry Data security standard
	Services and Systems - High Risk	<b>Vehicle Management</b>	SS-Transport Repair Depot		High risk audit - last opinion given 2018/19.
	Services and Systems - High Risk	<b>Housing Communal services</b>	DCX-Tenancy Management		High risk audit - last opinion given 2018/19.

# FAREHAM

## BOROUGH COUNCIL

# INTERNAL AUDIT STRATEGY

## 1. Introduction

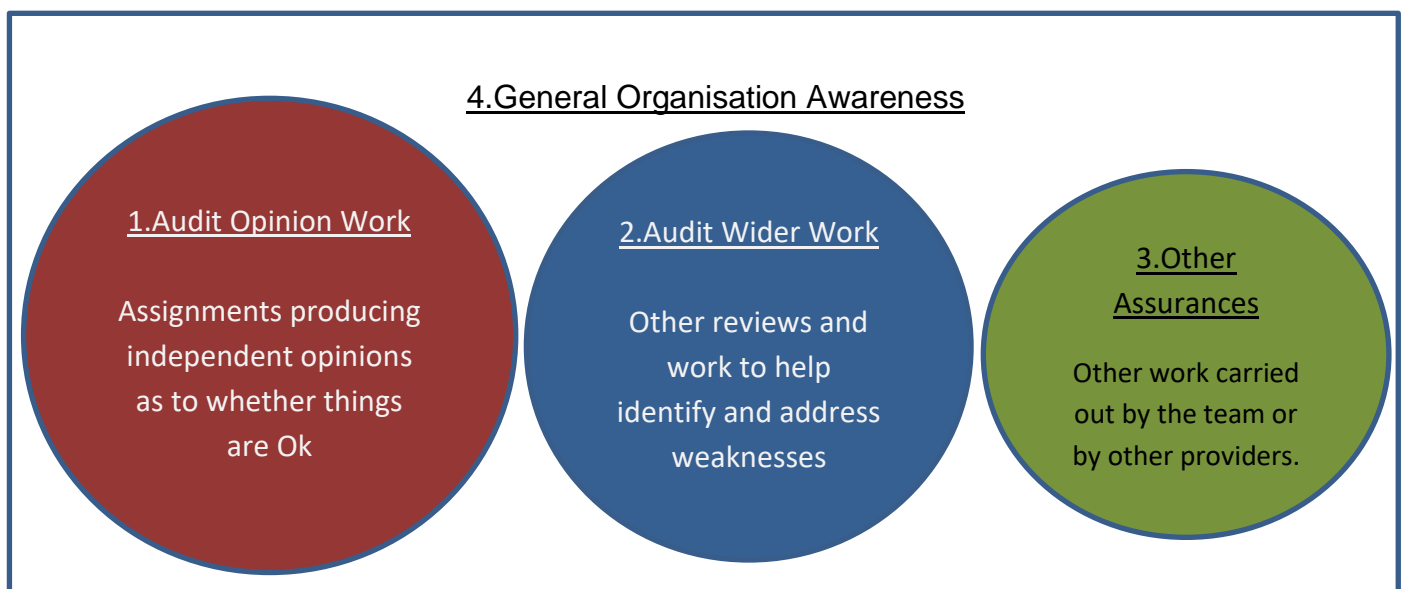
The Internal Audit Service, along with other assurance providers, forms the “third line of defence” for the Council after the controls and oversight processes established by management.

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

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

## 2. Sources of Assurance

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



## Internal Audit Activity (1 and 2)

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

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

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

## Other Assurances (3)

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

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

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

## General Organisation Awareness (4)

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

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



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

### 3. Quantity of Audit Work

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

#### Assurances available from other sources

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

#### Trends in the Profession

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

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

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

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

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

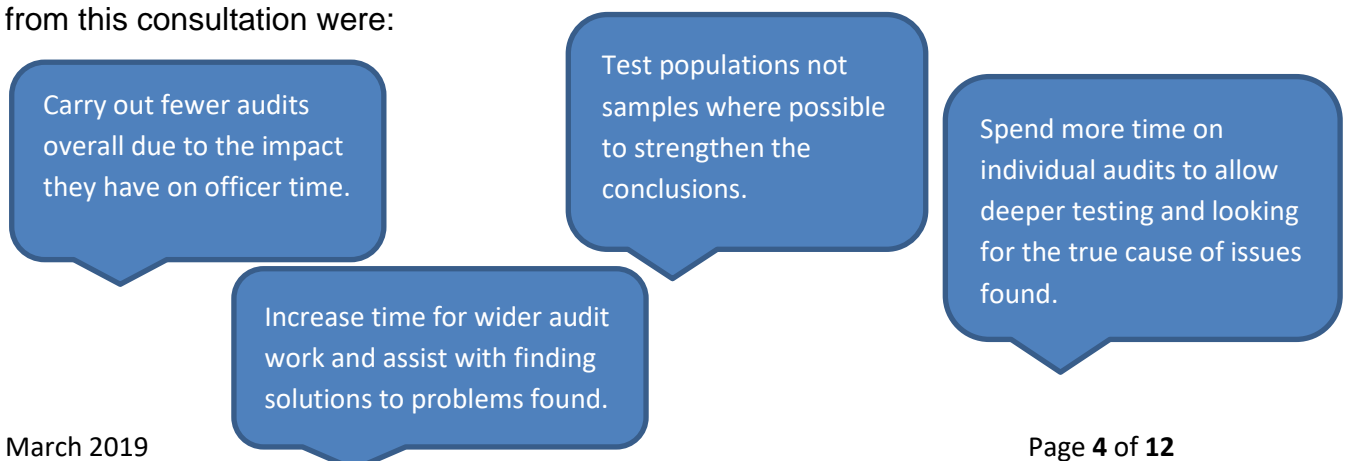
There are local factors which affect the level of audit work needed at any organisation. The South West Audit Partnership (SWAP) have piloted a model to allow Senior Managers to consider where their organisation sits within the model

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

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

### Consultation with Managers

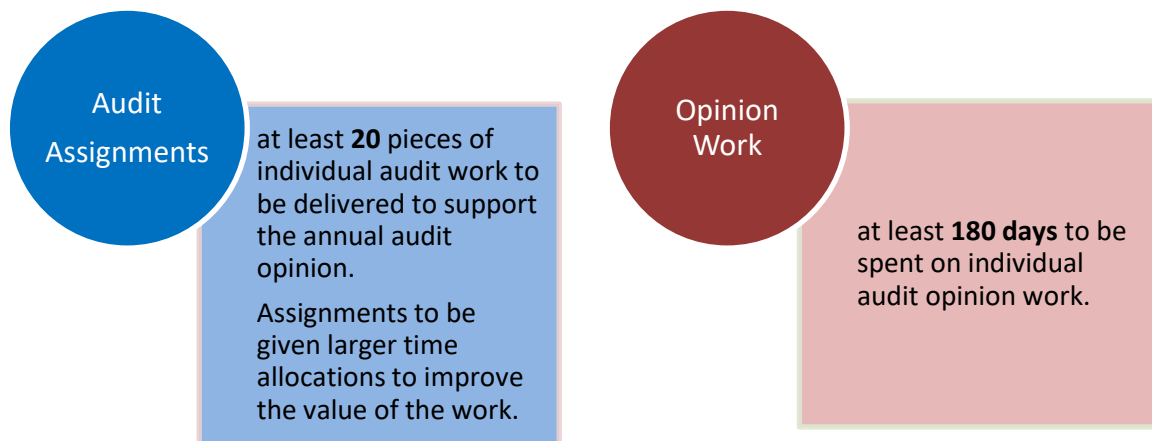
The views of the FBC Council managers were previously sought as to the nature and level of work they would like to see, and how the Audit Service fits into the “Vanguard” approach being adopted by the Council. The key messages arising from this consultation were:



## Proposed Quantity and Type of Audit Work

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

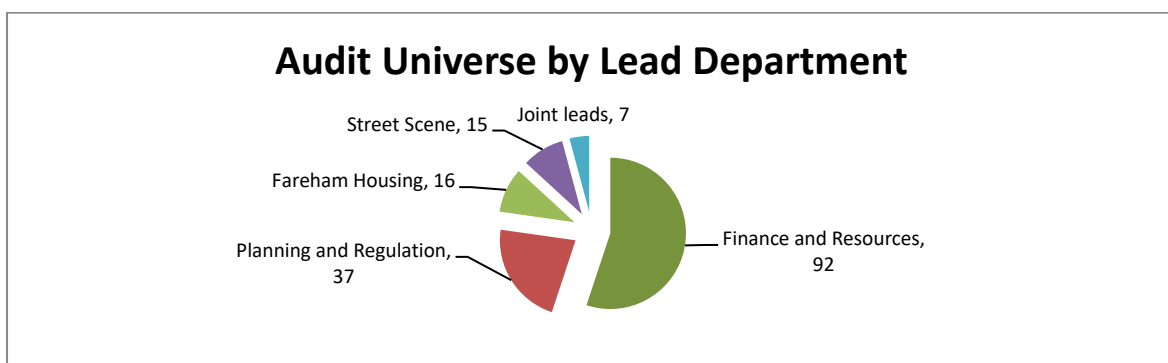
However, in setting the audit plan each year the following rules will be applied to ensure the plan is in line with trends in the profession, managers' requests and the factors affecting the local control framework:



## 4. Audit Opinion Work Priorities

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

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



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

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

### **Fundamental Systems**

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

### **High Risk Audits**

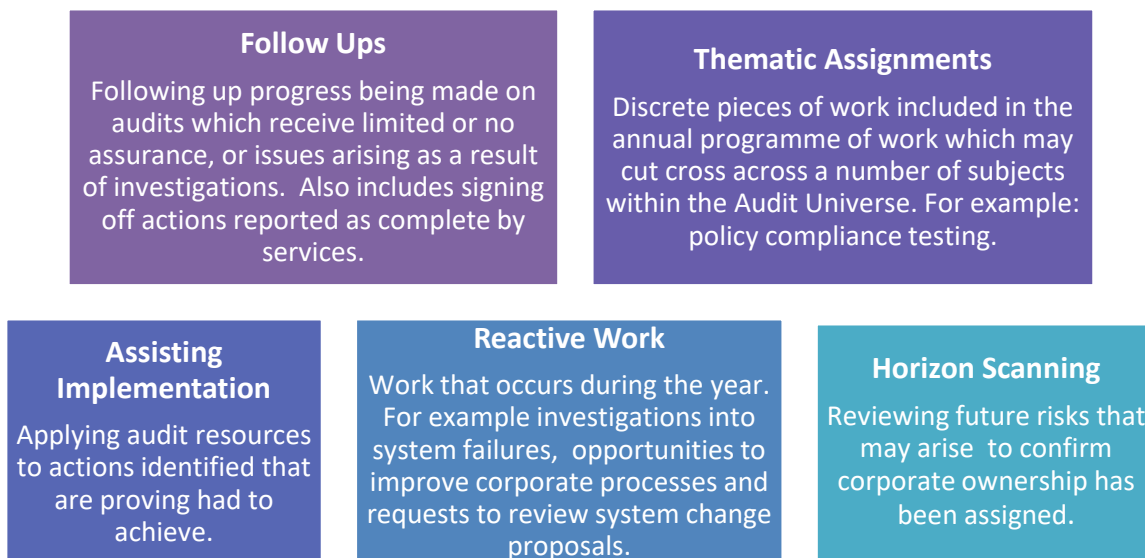
It is not possible with the current level of resources to audit all the subjects in the audit universe. Therefore, a risk assessment has been carried out to identify those subjects which are considered to be of high risk to the Council and therefore warrant a fresh audit opinion every 5 years.

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

## 5. Wider Work Priorities

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

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



## 6. Resourcing the Strategy

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

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

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

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

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

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

The Standards requirements from Internal Audit Activity:

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

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

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

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



## The Fundamental and High-Risk Audits

### Fundamental System Audits

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

### High Risk Audits

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

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

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

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

# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 13 March 2023  
**Report of:** Monitoring Officer  
**Subject:** MONITORING OFFICER REPORT

#### SUMMARY

This report is a standard item on the Audit and Governance agenda and seeks to update Members on a variety of assurances which are within the functions of the Committee but do not require a full report in their own right. It includes the Committee's work programme, annual review, the Member training review and asks Members to consider updates and the annual review of the Council's Constitution. This report is set out in two parts. Part One provides details of items for noting and Part Two sets out those items for approval or endorsement.

#### RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee: -

- a) note the contents of Part One of the report; and
- b) asks Members to pass comment on the matters for Council endorsement in Part Two of the report.

## **INTRODUCTION**

1. The Committees role is to seek assurance and provide a strategic overview to ensure efficient and effective reporting, control and assurance arrangements are in place. This report seeks to bring a way of reporting to the Audit and Governance Committee through the Monitoring Officer, on items which are significant but do not justify a full report in their own right.
2. The various section headings within this report are taken directly from the Committees Functions as set out in Part Two, Chapter 8 of the Constitution.

### **Part One:** Matters for noting

## **ACCOUNTABILITY**

3. The Audit and Governance Committee publishes an annual review report on its activities. As part of the ongoing work to help minimise the number of items on each agenda, for the first time this Annual Review of the Audit and Governance Committee is included within this Monitoring Officer report.
4. The purpose of the review is to report on the work of the Committee throughout the municipal year and a look ahead at the next year, including details of coverage against the purposes as set out in the Constitution, Part Two – Chapter 8 – Functions of the Audit and Governance Committee. To provide this assurance Members are asked to consider this year’s work programme for 2022/23 at Appendix A and a proposed work programme for 2023/24 at Appendix B.
5. Appendix A provides a detailed work programme for Members to consider their activity over this municipal year 2022/23. Where items have been included within the Monitoring Officer report this has been annotated to make it clear at what meeting those assurances have been provided.
6. Members are asked to note that the Annual Certification Report has not been brought to the Committee this municipal year and has been delayed until the next meeting of the Committee. This is due to the original External Auditors KPMG LLP exercising their right to no longer carry out this work and alternative auditors , Ernst and Young, needing to be found and given time to complete the 2021/22 Housing Benefit audit. Therefore, officers do not have their Annual Certification Report to inform to the Committee at this time.
7. The proposed work programme for 2023/24, attached at Appendix B, details items that will be brought to Committee within the next municipal year, which is for noting by the Committee and will then be endorsed by Council. Again, where appropriate items to be included within other reports has been annotated.
8. This municipal year has been a significant change in the way that some items of assurance have been reported to the Committee. In total seven agenda items have been removed from the work programme and included within either the Monitoring Officer report or the Head of Audits Quarterly report. It is hoped that this has had a positive impact on the Committee, both for Members and Officers.

## **Member Training**

9. The Audit and Governance Committee is charged with monitoring and reviewing the arrangements for members' training and development to ensure that the capacity of Members to provide effective governance and community leadership continues to develop. In Appendix C to this report officers have outlined the member training and briefing sessions that took place in 2022/23.

### Member safety training

10. A significant training module which commenced in 2022 was the Councillor Safety Training programme. This programme supports the work of the Local Government Association's "Debate Not Hate" campaign which aims to raise public awareness of the role of Councillors in their communities, encourage healthy debate and improve the responses and support for local politicians facing abuse and intimidation.
11. A report was taken to the December 2022 Council meeting which outlined this campaign and the ongoing work by the Council to understand the issues faced by its councillors and to relevant training modules in place to support them.
12. Members' will note the Council resolution to hold mandatory training sessions and engagement has taken place with outside organisations with sessions to be held over the coming months.

### New councillor training

13. A review of the training given to new Councillors will be undertaken this year in readiness for the 2024 Election. This review will assess what the current induction training content includes; whether any changes to this are required and identify any additional induction training requirements.
14. Members will find attached at Appendix D, a current schedule outlining the modules for new councillors. Members are asked to make any suggestions for training they feel new Councillors would benefit from, for this to be considered within the review.

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

### **The Constitution**

15. The Local Government Act 2000, Part 1A, Chapter 5 states that all local authorities must prepare and keep up to date a Constitution document. The Constitution updates have been a consistent aspect of this new Monitoring Officer report to provide regular updates to the Committee and also allow Officers to make regular amendments without the need bring a full report to the Committee.
16. This report includes an update to the Constitution and also provides a Constitution review, to allow Members to note all the updates to the Constitution since the last review in July 2022.

## Constitution Update

17. Members are asked to note a change to the **Council's deputation scheme** which forms part of the Standing Order with Respect to Meetings. The update is to allow for a change in protocol with regards to written deputations to take effect. As Members may recall, the Council introduced the option for written deputations to be submitted as part of a number of measures implemented during the Covid-19 lockdown, to ensure that the public could still engage with formal decisions. This additional method of giving a deputation has continued, and now a small change to the protocol will require Members to read the written deputations in advance of the meetings. Previously, written deputations have been read out by a Member of the Committee Team.
18. Delegation is given to the Head of Democratic Services to make amendments to the deputation scheme to allow for protocols to be updated. Therefore, Members are asked to note the changes to the scheme at Appendix E. In addition, a minor change is also required to paragraph 6.2.1 of the Standing Orders with Respect to Meetings so that it reads 'Deputations shall be heard received by Council, a meeting of the Executive....'
19. A preliminary review of the Council's Financial Regulations has been complete and changes are proposed to Financial Regulation 4 on Authorisation Limits as set out in Appendix F.
20. These changes, as summarised below, reflect the operation of the new financial system and analysis of the value of payments being processed:
  - The Authorisation levels 1-3 are to be swapped around to match how they are set up on the finance system, with level 1 being the lowest level.
  - Officers in Director, Heads of Service or Strategic Lead posts to automatically set up with authorisation rights without requiring approval.
  - Purchase desk offices can self-approve orders and invoices up to £500. Current analyses indicate that this covers approximately 39% of the number of payments made and less than 1% of the value of payments made.
  - Any request for an officer to be set up with an authorisation limit above that which is usually given for their grade will require second approval from an approved Finance Team Authoriser.
  - The Authorisation Limit for new Level 1 to be raised from £10,000 to £20,000 in order to reduce the number of requests for officers to be given the Level 2 level of £100,000; especially where there is no Head of Service in that department. Current analyses indicate that this will remove approximately 240 orders or invoices a year from needing Head of Service level approval.

- The rule on when Financial Management authorisation is needed for payments over £50,000 has been streamlined as part of the Financial Management role. This second authorisation is required for each individual payments to a supplier, to the total value of a payment run and also for payments made through on-line banking.

### Constitution Review

21. In 2018 the Committee agreed to carry out the first annual review of the Council's Constitution. This has been an annual report to the Committee since then.
22. With the introduction of the Monitoring officer report this municipal year, officers have been able to update Members of the Committee on changes, updates and administrative changes throughout the year. Therefore, moving forward the Constitution review will be an opportunity to look back at the changes to the Constitution over the past year to allow the Committee to carry out a review rather than a separate report.
23. The table below lists the changes and updates that have been made to the Constitution since the last review in July 2022.

Date	Part of the Constitution Updated	Reason for Change	Decision maker & Report Title
28 Jul 22	Part Five – Code of Conduct for Members	To ensure Members are not able to attend a meeting once a disclosable pecuniary interest has been declared. Removal of paragraph 7.6.	Council (through A&G Minutes)
	Part Four – Standing Orders in Respect to Meetings	As paragraph 7.6 to be removed from Part Five - Code of Conduct for Members, referenced within this document was also removed.	
	Part Five – Code of Practice for Ensuring Equal Opportunities in Employment	To be removed as is incorporated within the Code of Practice for ensuring Dignity at Work.	
	Part Five - The Code of Practice for ensuring Dignity at Work	Entire document reviewed and updated	
27 Oct 22	Part One – Chapter 13 – Legal, Financial and Contract Matters	Paragraph 13.7 and 13.8 updated to allow a digital solution for the signing of contracts for goods, services and works.	Council (Through A&G Minutes)
	Part Five – Code of Conduct and Disciplinary Rules and Procedures	Entire document reviewed and updated	
	Part Four – Financial Regulations	Additional wording to Financial Regulation 11.2 (Internal Audit) in order to comply with Principle 3.31 of the CIPFA Statement on 'The Role of the Head of Internal Audit 2019'.	
	Part Four – Procurement and Contract Procedure	Following a review, a number of amendments were made to ensure the Procurement and Contract Procedure	

	Rules	Rules continue a high level of compliance.	
25 Jan 23	Part One – Appendix 5A – Executive Portfolios including specific service responsibilities	Amendments to the Executive portfolios by removing Cemeteries and Crematorium from the Streetscene portfolio and added to the Health and Public Protection portfolio.	Executive Leader – Amendments to the Areas of Executive Portfolio Responsibility

24. The table above shows that the new way of reporting has greatly increased the ability to bring amendments to the Constitution through the Committee process without the need for additional reports, as the number of updates listed is significantly higher than in previous years. The hope is that this provides additional assurances to Members that the Constitution document is being maintained and compliant to a high standard.

### **RISK ASSESSMENT**

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

#### **Appendices:**

- Appendix A -** Work Programme 2022/23
- Appendix B -** Work Programme 2023/24
- Appendix C -** Member Training Schedule 2022/23
- Appendix D -** New councillor induction modules
- Appendix E -** Standing Order with Respects to Meetings – Deputation Scheme – track changes
- Appendix F -** Financial Regulations Authorisation Limits

#### **Background Papers:**

The Councils Constitution  
Council Agenda – 21 April 2022

[Council report “Members’ Safety” 15 December 2022](#)

#### **Reference Papers: None**

#### **Enquiries:**

For further information on this report please contact Sarah Robinson. (Ext 4566)



## WORK PROGRAMME FOR 2022/23

Committee Function and Report Subject		Frequency	Last Covered	July 2022	Sept 2022	Nov 2022	March 2023
<b>OVERALL PURPOSE AND ACCOUNTABILITY</b>							
Monitoring Officer (MO) Report - to include Review of Work Programme and training plan		Every Meeting	n/a	YES	YES	YES	YES
Review of the Functions of the Committee – included in MO Report		3 yearly	2022-23			**	
<b>GOVERNANCE, RISK AND CONTROL</b>							
Corporate Governance & AGS	Local Code of Corporate Governance	As needed	2016-17				
	<b>Annual Governance Statement</b>	Annual	2022-23		YES		
Risk Management	Policy	As needed	2016-17				
	<b>Risk Management Monitoring Reports</b>	6 monthly	2021-22			YES	YES
	<b>Business Continuity – Included in Risk Management Monitoring Report **</b>	3 yearly	2022-23			**	
	Specific Risk Management topics	As needed	2019-20 (cyber security risks)				
Value for Money	Specific VFM studies	As needed	None				
Counter Fraud	<b>Counter Fraud Policy and Strategy</b>	3 yearly	2016-17				
	<b>Anti-Bribery Policy</b>	As needed	2011-12				
	Sanctions and Redress Policy	As needed	2016-17				
	<b>Counter Fraud Annual Report</b>	Annually	2022-23	YES			
Partnerships	<b>Partnership Governance Report – Included in Head of Audits Report</b>	Annually	2022-23		**		
<b>AUDIT</b>							
Internal Audit	Internal Audit Strategy	3 yearly	2018-19				
	<b>Internal Audit Annual Plan – where possible this will be included within Internal Audit Progress Report</b>	Annual	2022-23				**
	<b>Internal Audit Progress Report</b>	Quarterly	2021-22	YES included Interim Annual Plan	YES Included Full Annual Plan	YES	YES

Committee Function and Report Subject		Frequency	Last Covered	July 2022	Sept 2022	Nov 2022	March 2023
	<b>Head of Audit's Annual Opinion</b>	Annual	2021-22		YES		
External Audit	<b>Arrangements for Appointment of External Auditors</b>	As needed	2021-22				
	<b>Annual Plan and Fee</b>	Annual	2020-21		YES		
	<b>Annual Auditor's Report and VFM commentary</b>	Annual	2020-21	YES			
	<b>Annual Certification Report</b>	Annual	2021-22				Delayed to July 2023
	Specific reports from inspection agencies	As needed	2018-19 (RIPA)				
<b>FINANCIAL REPORTING</b>							
<b>Statement of Accounts (SoA)</b>		Annual	2021-22			YES (draft)	
<b>External Audit – Audit Results Report</b>		Annual	2021-22				YES
<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	2022-23		**		
	<b>Review of Members Training and Development Programme – Included in MO Report</b>	Annual	2021-22				**
Treasury Management	<b>Treasury Management Strategy and Indicators</b>	Annual	2021-22			YES	YES – Policy and indicators
Key Policy Review	<b>Annual Review of the Constitution – Included in MO Report</b>	Annual	2021-22				**
	<b>Review of Financial Regulations – included in MO Report</b>	3 yearly	2022-23				**
	Review of Procurement and Contract Procedure Rules	3 yearly	2021-22				
	Prevention of the Facilitation of Tax Evasion	As needed	2021-22				
Other Matters referred to the Committee	Updates on legal issues	As needed	2017-18				
	Issues referred by the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				
Number of Items				9 4	8 5	7 5	9 5





## WORK PROGRAMME FOR 2023/24

Committee Function and Report Subject		Frequency	Last Covered	July 2023	Sept 2023	Nov 2023	March 2024
<b>OVERALL PURPOSE AND ACCOUNTABILITY</b>							
Monitoring Officer (MO) Report - to include Review of Work Programme and training plan		Every Meeting	n/a	YES	YES	YES	YES
Review of the Functions of the Committee – included in MO Report **		3 yearly	2022-23				
<b>GOVERNANCE, RISK AND CONTROL</b>							
Corporate Governance & AGS	Local Code of Corporate Governance	As needed	2016-17				
	<b>Annual Governance Statement</b>	Annual	2022-23	YES			
Risk Management	Policy	As needed	2016-17				
	<b>Risk Management Monitoring Reports</b>	6 monthly	2022-23		YES		YES
	Business Continuity – Included in Risk Management Report **	3 yearly	2022-23				
	Specific Risk Management topics	As needed	2019-20 (cyber security risks)				
Value for Money	Specific VFM studies	As needed	None				
Counter Fraud	<b>Counter Fraud Policy and Strategy</b>	3 yearly	2016-17			YES	
	<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	2022-23	YES			
Partnerships	<b>Partnership Governance Report</b> – Included in the Head of Audits Report **	Annually	2022-23			**	
<b>AUDIT</b>							
Internal Audit	<b>Internal Audit Strategy</b> Included in Internal Audit Quarterly Report **	3 yearly	2018-19		**		
	<b>Internal Audit Annual Plan</b> –Included in Internal Audit Quarterly Report **	Annual	2022-23				**
	<b>Internal Audit Quarterly Report</b>	Quarterly	2022-23	YES	YES	YES	YES
	<b>Head of Audit's Annual Opinion</b>	Annual	2022-23	YES			

Committee Function and Report Subject		Frequency	Last Covered	July 2023	Sept 2023	Nov 2023	March 2024
External Audit	Arrangements for Appointment of External Auditors	As needed	2022-23				YES
	Annual Plan and Fee	Annual	2022-23	YES			
	Annual Auditor's Report and VFM commentary	Annual	2022-23	YES			
	Annual Certification Report	Annual	2021-22	YES			YES
	Specific reports from inspection agencies	As needed	2018-19 (RIPA)				
<b>FINANCIAL REPORTING</b>							
Statement of Accounts		Annual	2022-23	YES			
External Audit – Audit Results Report		Annual	2022-23		YES		
<b>WIDER FUNCTIONS OF THE COMMITTEE</b>							
Standards and Ethics	Review of Code of Conduct for Members	As needed	2015-16				
	Review of member / officer protocol	As needed	2008-09				
	Annual Ombudsman Reports and Overview of Complaints against members– Included in MO Report	Annual	2022-23		**		
	Review of Members Training and Development Programme – Included in MO Report	Annual	2022-23				**
Treasury Management	Treasury Management Strategy and Indicators	Annual	2022-23			YES	YES – Policy and indicators
Key Policy Review	Annual Review of the Constitution – Included in MO Report	Annual	2022-23				**
	Review of Financial Regulations – included in MO Report	3 yearly	2022-23				
	Review of Procurement and Contract Procedure Rules	3 yearly	2021-22				
	Prevention of the Facilitation of Tax Evasion	As needed	2021-22				
Other Matters referred to the Committee	Updates on legal issues	As needed	2017-18				
	Issues referred by the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				
<b>Number of Items</b> (not including items included within other reports)				8	5	4	6

### REVIEW OF MEMBERS' TRAINING AND DEVELOPMENT PROGRAMME

#### Schedule of Training and Development 2022/23

10 May 2022	New Councillor Module One
18 May 2022	New Councillor Module Two
26 May 2022	New Councillor Module Three
06 July 2022	Planning Briefing
07 July 2022	Audit and Governance Committee Training
29 June 2022	Planning Member Training - Probity in Planning
04 July 2022	Additional Planning Member Training - Probity in Planning
26 July 2022	All Member Briefing - Southern Water Consultation - Water for Life
05 September 2022	Licensing Training
29 September 2022	All Member Briefing - Full Fibre Broadband rollout
26 October 2022	All Member Briefing - Fareham Local Plan Main Modifications
07 November 2022	Newly Elected Councillor Introduction
08 November 2022	Newly Elected Councillor Introduction
21 November 2022	Visit to CEMAST and CTEC for Daedalus Scrutiny Panel members
09 January 2023	All Member Briefing - Medium Term Finance Strategy
06 February 2023	All Member Briefing - Welborne Garden Village Update
08 February 2023	All Member Briefing – Welborne Exhibition Preview
27 February 2023	All Member Briefing – Welborne Design Codes
24 April 2023	All Member Training – Online Safety
03 May 2023	All Member Training – Online Safety
23 May 2023	All Member Training – Personal Safety





New councillor induction modules

### **Module 1: Welcome and key things to know**

This module is usually held on the Tuesday after the Election, ahead of the Annual Council Meeting

#### **Contents:**

Civic building evacuation; introductions; overview of key points (meeting procedures, declarations of interest, petitions and motions); Information Security; ICT requirements; media awareness; photo and administration (Register of Interests documents etc)

### **Module 2: Planning Committee**

This module is held after the Annual Council meeting where Appointments to Committees are agreed, and before the first Planning committee and is for newly appointed Councillors to the Planning Committee.

#### **Contents:**

This module includes the role of a planning committee member; meeting procedure; LGA planning and Probity guidance.

### **Module 3: Varied content**

This all-day session comprises multiple sessions delivered by key officers from across the Council. This is usually held 3 – 4 weeks after the Election.

#### **Contents:**

Roles and responsibilities including more in-depth information about Code of Conduct, registering interests and declarations of interests and the use of social media

Overview of the Council's Constitution including Standing Orders and Financial regulations

Corporate Strategy and Objectives; Equality and Inclusion; and the Council's response to Climate Change & its Action Plan

Committee structure, scrutiny, motions to Council and petitions

Freedom of information, Data Protection and the UK General Data Protection Regulation

Safeguarding



## APPENDIX ONE

### SCHEME FOR DEPUTATIONS TO COUNCIL, EXECUTIVE, SCRUTINY PANEL, COMMITTEE AND SUB-COMMITTEE MEETINGS (other than Planning Committee)

1. Notice of a proposed Deputation, which shall be given in writing, shall be lodged with the Head of Democratic Services no later than by noon two working days before the day of the meeting and:
  - (a) in the case of a meeting of the full Council, shall be addressed to the Mayor
  - (b) in the case of a meeting of the Executive, shall be addressed to the Executive Leader
  - (c) in the case of a Scrutiny Panel, Committee or Sub-Committee of the Council, shall be addressed to the chairman of the relevant Panel, Committee or Sub-Committee.
2. A notice shall give brief details of the subject on which a Deputation wishes to be heard.
3. A Deputation to the Executive or a Committee, shall be entitled to address the meeting only on a matter which forms the subject of an item for discussion on the agenda for that meeting.
4. A Deputation to a meeting of the full Council shall be entitled only to address members on matters concerning functions and powers of the Council.
5. A Deputation to a Scrutiny Panel shall be entitled only to address Members on matters concerning functions and powers of the relevant Panel.
6. If notice of a Deputation is received which, in the opinion of the Head of Democratic Services is illegal, irregular, improper, or is deemed to duplicate a recent (within the previous 6 months) deputation to that Committee it shall not be accepted. In the event of nonacceptance, the Head of Democratic Services shall notify the Deputee.
7. Deputations shall be received only from persons/organisations who are currently living, working or studying in the Borough
8. Councillors may not make deputations under this scheme.
9. With the consent of the Mayor, Executive Leader or Chairman, as appropriate, a Deputation may be presented by one person to speak on his, her or its behalf.
10. Subject to the other provisions of this scheme, deputations may be given in written form in place of a verbal deputation. Subject to the other provisions of this

~~scheme Deputations may be in writing or submitted electronically.~~

11. Where a deputation is received in written form, this will be circulated to all Members of that Committee, Executive, Council or Panel ahead of the meeting to enable them to read, and have consideration of the deputation, ahead of the meeting.

~~11.12.~~ 12. Notwithstanding the time limits for Deputations allowed by the Councils Standing Orders (that is, that addresses shall not exceed ten minutes in total for each deputation, this period to include the time taken to read any memorial presented) the total time for receipt of all Deputations at any one meeting shall be thirty minutes. If more than three Deputations are received at a meeting, the time allowed for each shall be reduced accordingly.

~~12.13.~~ 13. In relation to meetings of the Executive, the Scrutiny Panels or Committees, the item next on each agenda after Apologies for Absence, (election of a Vice-Chairman as required), Minutes, Chairman's Announcements and Declarations of Interests, shall be: -  
*'To receive Deputations of which notice has been lodged'*.

~~13.14.~~ 14. If no notice has been lodged or if no Deputation is present to be received, the meeting shall proceed to the next business.

~~14.15.~~ 15. In relation to meetings of the full Council, receipt of Deputations shall be timetabled as the Mayor shall decide.

~~15.16.~~ 16. Deputations shall not be received at site meetings or at the Annual Meeting of the Council.

~~16.17.~~ 17. Arrangements shall be made for a list of Deputations to be circulated to members present at the beginning of each relevant meeting.

~~17.18.~~ 18. The Head of Democratic Services in consultation with the Chairman, has the authority to alter this scheme, should circumstances require.

## APPENDIX TWO

## SCHEME FOR DEPUTATIONS TO MEETINGS OF THE PLANNING COMMITTEE

1. Notice of a proposed deputation shall be given in writing and shall be lodged with the Head of Democratic Services no later than noon two working days before the day of the meeting.
2. The notice shall specify the application or other matter on which a deputation wishes to be heard and, in the case of an application for planning consent, shall specify whether the deputation is for or against the proposal.
3. A deputation shall be entitled to address the meeting only on a matter which forms the subject of an item for discussion on the agenda for that meeting.
4. Deputations shall be received only from the applicant or his/her professional agent or from persons who are living or working in the Borough. Only one deputation will be accepted per household. (Note: for this purpose, "household" will be taken to mean all the persons who usually live in the same dwelling unit and who share living arrangements).
5. Where two or more notices of deputation are received on the same matter, the Council will actively encourage the appointment of a single spokesman to present the deputation on behalf of all.
6. Subject to the other provisions of this scheme, deputations may be given in written form in place of a verbal deputation.
7. Where a deputation is received in written form, this will be circulated to all Members of the Planning Committee ahead of the meeting to enable them to take the deputation into account when considering the item to which it refers.
- 6.8. Any supporting documents either written, photographic or other material to be presented as part of the deputation shall be lodged with the Head of Democratic Services no later than noon two working days before the day of the meeting. With the consent of the Committee, deputees may be permitted to circulate relevant photographs or drawings at the meeting but no additional written material which has not been lodged prior to the meeting. Planning officers will be invited to comment if appropriate on the photographs or drawings circulated.
- 7.9. Deputations shall **not** be received at site meetings.
- 8.10. The time limits for presenting deputations shall be:
  - (a) In respect of those speaking in support of an application: a single deputation shall be allocated not more than three minutes; a single spokesman representing two or more deputees shall be allocated not more than six

minutes; in the event that there is more than one speaker, the total time allowed for all speakers shall be six minutes and the time shall be shared equally among them.

- (b) In respect of those speaking against an application: a single deputation shall be allocated not more than three minutes; a single spokesman representing two or more deputees shall be allocated not more than six minutes; in the event that there is more than one speaker, the total time allowed for all speakers shall be six minutes and the time shall be shared equally among them.
- (c) In respect of those deputations to be made by established amenity groups\* on an issue relevant to their area of interest: a single deputation shall be allocated not more than three minutes; a single spokesman representing two or more amenity groups shall be allocated not more than six minutes; in the event that there is more than one speaker, the total time allowed for all speakers shall be six minutes and the time shall be shared equally among them.  
*(\* a list of established amenity groups is maintained by the Committee and may be revised periodically at the discretion of the Chairman in consultation with ward members.)*

9.11. In respect of deputations on other matters: the total time allocated shall be five minutes for a proposal and five minutes against a proposal when it is appropriate to do so; otherwise the total time allocated shall be five minutes. A single deputation shall be allocated not more than three minutes; a single spokesman representing two or more deputees shall be allocated not more than five minutes; in the event that there is more than one speaker, the total time allowed for all speakers shall be five minutes and the time shall be shared equally among them.

10.12. The Head of Democratic Services in consultation with the Chairman, has the authority to alter this scheme, should circumstances require.

*Scheme adopted Dec2004 and amended at subsequent meetings. Last updated: **December 2019.***





## Financial Regulation 4 - Authorisation Limits

(with the proposed changes highlighted)

- 4.1 **Nature of Spend:** Expenditure should only be incurred in relation to the business of FBC and procurement channels should not be used for personal use under any circumstance.
- 4.2 **Budget Provision:** Expenditure can only be incurred within the revenue and capital budgets approved by the Council.
- 4.3 **Capital Expenditure:** Only expenditure that meets the capitalisation rules can be charged against a capital scheme.
- 4.4 **Budget Holder Agreement:** When authorising expenditure, the authoriser should be confident that the budget holder has confirmed that the expenditure can be posted against their budget. The authoriser should take reasonable steps to be able to demonstrate this confirmation if challenged.

Exemptions from the need for budget holder confirmation are:

- Internal recharges
- Employee related costs
- Energy costs
- Vehicle costs
- Insurance premiums and excesses
- Leasing costs
- Capital financing costs
- Bank charges
- Bad debt provisions
- ICT software and hardware costs
- Non-negotiable expenditure e.g. external audit fees
- Accounting transactions and corrections
- Anything else procured centrally or expenditure on a consolidated invoice.

4.5 **Authorisers:** Orders and payments which involve the spending of council funds must be authorised by an employee of the Council, whose powers to incur expenditure are in accordance with the limits set out in Appendix 1, and who has been nominated as an authoriser by their Head of Service.

4.6 **Authorisation rule exceptions:**

- Directors, Heads of Service and Strategic Lead Officers will automatically be set up with level 3 and 2 authorisation rights based on their post.
- Any request for an officer to be set up with an authorisation limit above that which is usually given for their grade will require second approval from an approved Finance Team Authoriser.
- Purchase Desk Officers requested by their Head of Service to be set up on the finance system to input orders and invoices for their department are able to self-approve orders and invoices up to £500 (net of VAT).

•  
**4.7 Procurement Cards:** ~~The exception to this are OP~~ payments made on Council Procurement cards ~~which~~ can be made by an approved card holder who has signed a procurement card agreement setting out their authorised limits in accordance with Appendix 1.

An authorised officer, other than the card holder, must be nominated to receive details of the transactions being charged to each card.

**4.54.7** Employees must not authorise any payments which are above these limits unless written approval to do so has been given by the employee's director and Statutory Chief Finance Officer.

**4.64.8 Emergency Responses:** In the event of the Council being involved in an emergency response, such that a control centre has been established, additional powers of authorisation are allowed in accordance with [Financial Regulation Support Document 29](#).

**4.74.9 Personal Benefit:** No employee can authorise payments to themselves, or to related bodies/individuals where they have a personal interest. Any exceptions to this must be agreed by the Statutory Chief Finance Officer.

## Financial Regulation 4 – Appendix 1: Current Authorisation Limits

			Level <del>3</del> <sub>1</sub>	Level 2	Level <del>1</del> <sub>3</sub>	Other
	Covers	Additional Rules	Member of Chief Executive's Management Team	Head of Service	Other staff nominated by their Head of Service or Director	Finance Team Authoriser
<b>Budget Expenditure</b>	<p>Electronic authorisation on efinancials, Orchard or Technology Forge</p> <p>Manual authorisation of order forms, yellow stickers or payment vouchers/certificate</p>	<p><del>Any payment over £50,000 must be additionally approved by an officer with Financial Management authorisation, who is different from the first authoriser.</del></p> <p><u>Written approval must be obtained from the Statutory Chief Finance Officer for a</u>Any payment over £1,000,000 <del>must have been approved by the Statutory Chief Finance Officer</del></p>	No Limit	£100,000	<p><del>£10,000</del></p> <p><u>£20,000</u></p>	Not applicable
<b>Petty Cash</b>	<p>Cash Advances</p> <p>Reimbursement</p> <p>Float Top Up</p>	Any payment over £200 must be counter signed by the Statutory Chief Finance Officer who cannot also be the first signatory.	£200	£100	£50	Not applicable
<b>Procurement Cards</b>	<p>Advance payments</p> <p>In person payments</p> <p>Telephone payments</p> <p>Internet orders</p>	<p>Limits are the upper limit for single transactions.</p> <p>Higher limits can be given in individual cases, up to the maximum single transaction Procurement card limits, on approval of the Nominated General Finance Manager or Statutory Chief Finance Officer.</p>	Up to £5,000	Up to £2,000	Up to £1,000	Not applicable

			Level <del>31</del>	Level 2	Level <del>13</del>	Other
	Covers	Additional Rules	Member of Chief Executive's Management Team	Head of Service	Other staff nominated by their Head of Service or Director	Finance Team Authoriser
		<p>The maximum <u>monthly</u> limit that can be set for any card is £10,000. Limits above £5,000 must be approved as above.</p> <p>Actual limits for single and monthly transactions are set out in individual Procurement Card agreements.</p>				
<b>Financial Management</b>	<p><u>Payment run approval or high level payment to suppliers in the finance system or online banking system.</u></p> <p>Payroll administration and pension payments</p> <p>Precepts to other precepting authorities</p> <p>Routine transfers to Government Departments (e.g. Inland Revenue. NNDR)</p> <p>Pension payments</p> <p>Authorisation of sundry debtor refunds</p> <p>Tax Adjustments</p> <p>Inter-account transactions</p> <p>Treasury management transactions</p>	<p><del>Any cheque over £50,000 must be countersigned by an officer with Financial Management authorisation.</del></p> <p>Any <del>non-cheque</del> payment <u>run or individual payment</u> over £50,000 must be additionally approved by an officer with Financial Management authorisation, who is different from the first authoriser.</p> <p>Any Financial Management transaction over £3,000,000 must have been approved by the Statutory Chief Finance Officer who cannot also be the authoriser. An allowed exception to this rule is transfers of money between accounts held by the Council's nominated bank.</p>	Not applicable	Not applicable	Not applicable	<b>£3,000,000</b>

			Level <del>31</del>	Level 2	Level <del>13</del>	Other
	Covers	Additional Rules	Member of Chief Executive's Management Team	Head of Service	Other staff nominated by their Head of Service or Director	Finance Team Authoriser
<b>Employee Expenses</b>	Payments to employees made through the electronic expenses system: Mileage, Overtime, Hourly Salary, Standby, Eye care, Subsistence, Parking, Public transport.	Any claim where the employee's manager is not available can be authorised by a Super User.	A post holder can authorise any claim of an employee whose post reports to theirs in the management structure. A claim submitted by a Director or Deputy Chief Executive Officer can only be authorised by another Director, Deputy Chief Executive or a Super User. A claim submitted by the Chief Executive Officer can only be authorised by another Statutory Officer. This is controlled electronically by the system. Claims shall not be submitted and authorised by the same person.			
<b>Pay Advances</b>		Any payment over £500 must be counter signed by the Statutory Chief Finance Officer who cannot also be the first signatory.	<b>£500</b>	<b>£200</b>	Not applicable	Not applicable

#### Notes to Appendix 1

1. These limits relate to NET expenditure (net of VAT).
2. The authorisation rules in relation to income are laid out in Financial Regulation 19.
3. The authorisation rules in relation to changes in staff remunerations are laid out in the Pay Policy.
4. The rules in relation to signing agreements are laid out in Contract Procedure Rules and the Constitution
5. Some posts are designated as Heads of Services in relation to this policy where there is not a direct Head of Service available in the management structure. These posts must be approved as such by the Director of the department.
6. A manual signature must be provided for all post holders who are nominated to authorise

