

NOTICE OF MEETING

Meeting: AUDIT COMMITTEE

Date and Time: FRIDAY, 26 OCTOBER 2018, AT 9.30 AM*

Place: COMMITTEE ROOM 1, APPLETREE COURT,
LYNDHURST

Telephone enquiries to: Lyndhurst (023) 8028 5000
023 8028 5588 - ask for Andy Rogers
E-mail: andy.rogers@nfdc.gov.uk

PUBLIC PARTICIPATION:

*Members of the public may speak in accordance with the Council's public participation scheme:

- (a) immediately before the meeting starts, on items within the Committee's terms of reference which are not on the public agenda; and/or
 - (b) on individual items on the public agenda, when the Chairman calls that item.
- Speeches may not exceed three minutes. Anyone wishing to speak should contact the name and number shown above.

Bob Jackson
Chief Executive

Appletree Court, Lyndhurst, Hampshire. SO43 7PA
www.newforest.gov.uk

This Agenda is also available on audio tape, in Braille, large print and digital format

AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meeting held on 27 July 2018 as a correct record.

2. DECLARATIONS OF INTEREST

To note any declarations of interest made by members in connection with an agenda item. The nature of the interest must also be specified.

Members are asked to discuss any possible interests with Democratic Services prior to the meeting.

3. PUBLIC PARTICIPATION

To note any issues raised during the public participation period.

4. FRAUD UPDATE (Pages 1 - 4)

To receive an update on anti-fraud activities since January 2018.

5. 2017/18 ANNUAL AUDIT LETTER (Pages 5 - 26)

To receive the external auditor's annual audit letter for the year ended 31 March 2018.

6. INTERNAL AUDIT PROGRESS REPORT (Pages 27 - 44)

To receive the internal audit progress report.

**7. TREASURY MANAGEMENT MID YEAR MONITORING REPORT 2018/19
(Pages 45 - 54)**

To note the treasury management mid year monitoring report for 2018/19.

8. MEETING DATES 2019-2020

To agree the following dates of meetings for 2019/20 (each at 9.30 a.m.)

Friday, 25 January 2019 (already agreed)
Friday, 29 March 2019
Friday, 31 May 2019
Friday, 26 July 2019
Friday, 25 October 2019
Friday, 24 January 2020
Friday, 27 March 2020

9. AUDIT COMMITTEE WORK PLAN (Pages 55 - 56)

To consider the Audit Committee's Work Plan.

10. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

To:

Councillors:

A D O'Sullivan (Chairman)
J G Ward (Vice-Chairman)
A R Alvey
W G Andrews

Councillors:

J D Heron
Mrs E L Lane
Miss A Sevier
C A Wise

AUDIT COMMITTEE – 26 OCTOBER 2018

FRAUD UPDATE

1. INTRODUCTION

- 1.1 The Council is committed to the fight against fraud and will deal openly and forcefully with anyone who acts dishonestly. Following the Fraud Strategy being approved, this report provides an update of the fraud activities since January 2018.
- 1.2 The Fraud and Compliance Officer is 0.53FTE.

2. FRAUD REFERRALS

- 2.1 Since January 2018 there have been 36 referrals to the Corporate Fraud and Compliance Officer of which 17 have been completed. Referrals are received via an e-form, hotline or internally from staff.
- 2.2 Following investigations there has been a total of £39,605.73 in Housing Benefit overpayments and £15,639.96 in Council Tax Reduction non entitlement. For overpayments of Housing Benefit we can claim subsidy of 40% of the overpayment amount. Where the overpayment is recovered, i.e. paid back by the claimant, by 60% or more this is an additional income to the council.

2.3 Fraud Referrals from Jan 18 to Sept 18

Type of referral	No of referrals	Ongoing cases	Closed cases
Living Together	12	10	2
Undeclared Capital	2	1	1
Undeclared Earnings	8	3	5
Household composition	2	0	2
Paying of rent	1	0	1
Homesearch waiting List	1	1	0
Right to Buy	2	0	2
Tenancy – sublet/non-occupation	5	2	3
Single Person Discount	2	1	1
Internal	1	1	0
Total Referrals	36	19	17

- 2.4 The outcome of the referrals where investigations have concluded are detailed in Appendix 1.

3. POLICY UPDATE

- 3.1 The following polices have been updated and approved this year:

- Money laundering
- Whistleblowing

The Fraud Strategy and the Anti-bribery and corruption strategy have both been updated.

3.2 All of the above have been communicated to staff.

4. JOINT WORKING WITH THE DEPARTMENT FOR WORK AND PENSIONS (DWP)

4.1 As part of a new initiative, the Council is working in partnership with the DWP on joint investigations and prosecutions whereby Council Tax Reduction fraud will be included along with DWP benefit fraud. This is voluntary for local authorities, but mandatory for the DWP where the local authority signs-up, and is due to commence on 29 October 2018. There is no funding from DWP.

4.2 As any Council Tax Reduction “overpayment” will be included with the DWP overpayment, this may increase the likelihood of a sanction or prosecution. There will be no cost to the council where there is a prosecution.

4.3 There will be no Service Level Agreement but instead a Data Sharing Agreement for local authorities and DWP to sign.

5. NATIONAL FRAUD INITIATIVE

5.1 The council undertakes the Cabinet’s office National Fraud Initiative data match and will continue to target those referrals considered high risk of fraud. Data is due to be submitted by October with the data matches results being received in January 2019. There are no timescales for completion and the Corporate Fraud and Compliance Officer will coordinate this and will work with those services affected.

6. FRAUD RISK REGISTER

6.1 As part of promoting a counter fraud culture and to raise awareness each service will be asked to consider and review the risk of fraud and corruption within their service. This will identify potential risks, the controls in place and if any controls are required and feed into the Corporate Risk Register.

6.2 These will be reviewed every two years.

7. PUBLICITY

7.1 Articles in Hometalk have been placed to highlight tenancy fraud.

8. FUTURE ACTIVITIES

8.1 We are due to undertake a review of single person discounts and plan to review staff declarations.

9. RECOMMENDATION

9.1 It is recommended that the Committee note the contents of this report.

Appendix 1 - Results from Jan 18 to Sept 18

ALLEGATION / INVESTIGATION	OUTCOME	PENALTY
Claimant has undeclared capital of £25,000	HB OP £8,471.57. CTR OP £1,461.30. Claimant paid all outstanding HB OP.	£70 civil penalty issued.
Claimant has undeclared capital	HB OP = £21,139.71. CTR OP = £5,819.86.	Prosecution File prepared – with Legal Services, ongoing.
Claimant has undeclared earnings since 2007	Following investigation & IUC CTR/CTB OP = £5,518.94	Admin Penalty of £1,000 accepted.
Claimant has undeclared earnings (despite having recently accepted an Admin Penalty)	CTR OP of £50.	No penalty but warning letter issued
Claimant has undeclared Pension & earnings	Following IUC CTR OP of £1,427.30 & HB £5,198.36.	Claimant accepted an Admin Penalty for £736.15
Claimant has undeclared earnings	HB OP of £2,638.00 & CTR OP of £309.49	Warning letter issued regarding importance of notifying Change of circumstances.
Claimant has undeclared earnings.	HB OP £2,158.09. CTR OP of £752.15. Invited claimant for informal interview. Statement taken.	Warning Letter issued regarding importance of notifying Change of circumstances.
Paying rent from other accounts. Information from Accountancy that 4 rent payments were made fraudulently totalling £956.98. Cardholders have requested payments back through their banks	Passed to Police for action, NFDC Statement made to Police. Police conducted house search but no evidence found. Police spoke with tenant regarding payments but no further action taken.	
Homesearch waiting list – should not be High Priority	Applicant interviewed. Property allocated to another applicant with an urgent need.	
Non-occupation of council property	After investigation & IUC tenant surrendered their tenancy & handed back their 2 bed Council House back on 19/3/18.	
Non-occupation of council property	IUC completed & tenant voluntarily surrendered their tenancy and handed back 2 bedroom property	
Council Tax payer not entitled to single person discount	Single person discount ended to April 2011	No penalty but £2,035.91 council tax to be paid

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New Forest District Council

Annual Audit Letter for the year
ended 31 March 2018

August 2018



Building a better
working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary



Executive Summary

We are required to issue an annual audit letter to the New Forest District Council (the Council) following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

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Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report. The Council is below the specified audit threshold of £350mn. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 16 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 27 July 2018.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.



02

Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 27 July 2018 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 8 March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2017/18 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 July 2018. Our detailed findings were reported to the 27 July 2018 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Misstatements due to fraud or error</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 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.</p>	<p>We performed the following:</p> <ul style="list-style-type: none"> tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; reviewed accounting estimates for evidence of management bias in how they had been arrived at, e.g. understating assumptions about accruals; and evaluated the business rationale for significant unusual transactions, e.g. individual material items, anomalies in accounting treatment, transactions put through the ledger at unusual times. <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>Having assessed the key income and expenditure streams of the Council, we judged that there was material opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.</p>	<p>We performed the following:</p> <ul style="list-style-type: none"> Documented our understanding of the controls relevant to this significant risk and confirmed they have been appropriately designed. Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature. Amended our sample sizes when testing additions and REFCUS to reflect the existence of this risk. Agreed samples to source documentation to ensure the capital/revenue split was reasonable. Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes. <p>Our testing did not identify any material misstatements from revenue and expenditure recognition.</p> <p>Capital additions and REFCUS were appropriately classified.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p>

Other Key Findings	Conclusion
Property, Plant and Equipment valuation	<p>The Authority had not valued its PPE as at the balance sheet date, so we undertook procedures to ensure it was still materially correctly stated.</p> <p>Our work performed has not identified any risks of material misstatement, the fair value of Property, Plant and Equipment are recorded correctly in the balance sheet.</p>
Valuation of Council Dwellings	<p>Our work performed over the valuation of Council Dwellings has not identified any material misstatements.</p> <p>In term of the revised method of HRA depreciation, we have challenged the methodology and the assumptions made by management, along with performing benchmarking against other authorities. This resulted in a corrected misstatement that we reported to the Audit Committee on 27 July 2018.</p>
Pension Liability	<p>In order to produce their report the pension actuary takes data from earlier in the year, and estimates the value of the pension assets and liabilities as at the year-end.</p> <p>Our testing identified that the value of the Pension Fund as at 31 March 2018 differed from the actuaries estimate, however NFDC's share of that variance was only £799,000, and as not material to the accounts remained unadjusted.</p>
Restatement of the CIES and EFA	<p>During the year, the Portfolios have changed within the Council. This change will require a full retrospective restatement of impacted statements.</p> <p>We have not identified any misstatements through our work performed on the restatement of the CIES and EFA.</p>

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £2.143mn (2017: £2.051mn), which is 2% of gross expenditure reported in the accounts. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £107k (2017: £103k)

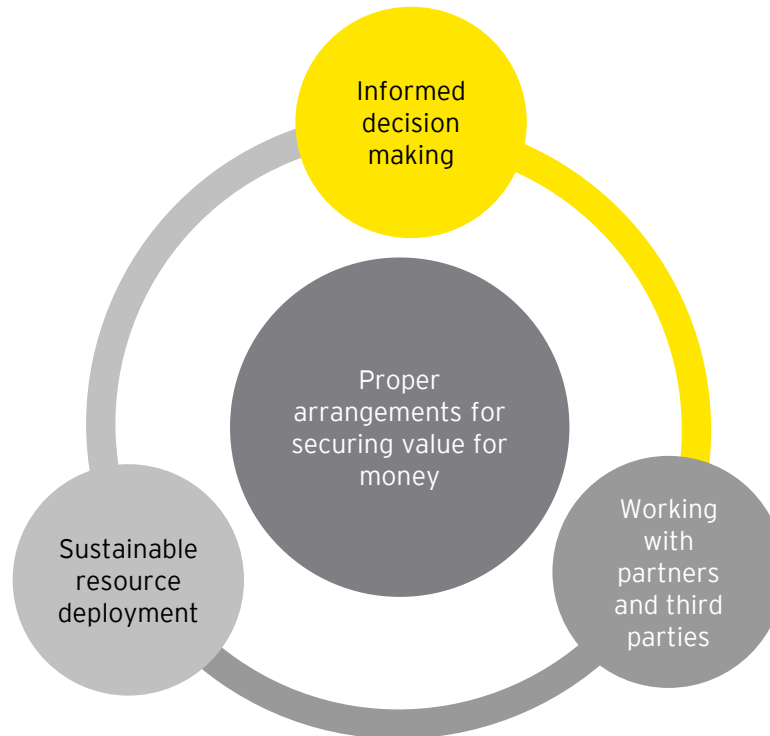


04 Value for Money

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

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

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



We did not identify any significant risks in relation to these criteria. We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 27 July 2018.



05 Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.



Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 27 July 2018. 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 regulatory and professional requirements.

Control Themes and Observations

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 adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.



07 Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; and ▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets ▶ Re-measure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers.</p>



Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>



08 Audit Fees

Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our Audit Plan.

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Total Audit Fee - Council	56,461	55,482	55,482	56,462
Total Audit Fee - Certification of claims and returns	TBC	5,492	5,492	4,253

The final fee is above plan by £979, due to the additional work undertaken on the restated CIES and EFA. This is still subject to PSAA approval.

The work on certification of claims and returns is not completed, we will communicate the final fee in our grant certification report.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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**EMT 16 OCTOBER 2018
AUDIT COMMITTEE – 26 OCTOBER 2018**

INTERNAL AUDIT PROGRESS REPORT 2018-19 – OCTOBER 2018

1. INTRODUCTION

- 1.1. The purpose of this report is to provide the Audit Committee with an overview of internal audit activity completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports. The report also proposes changes to the 2018-19 internal audit plan for consideration.

2. SUMMARY

- 2.1. Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
- undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

- 2.2. In accordance with the Public Sector Internal Audit Standards and the Council's Internal Audit Charter, the Chief Internal Auditor is required to provide a written status report to the Governance and Audit Committee, summarising:

'communications on the internal audit activity's performance relative to its plan.'

- 2.3. Appendix 1 summarises the performance of Internal Audit for 2018-19.

3. FINANCIAL IMPLICATIONS

- 3.1. The audit plan consists of 470 audit days including 18 audit days provided to the New Forest National Park Authority under the current Service Level Agreement. The Council's budget for 2018/19 reflects these arrangements.

4. CRIME AND DISORDER IMPLICATIONS

- 4.1. There are no crime and disorder implications arising directly from this report, however inadequate audit coverage may result in areas of control weakness, unacceptable risks or governance failings as well as the increased potential for error and fraud.

5. ENVIRONMENTAL MATTERS & EQUALITY AND DIVERSITY IMPLICATIONS

5.1. There are no matters arising directly from this report.

6. RECOMMENDATION

6.1. The Audit Committee:

- note the content of the progress report; and
- approve the proposed changes to the 2018-19 internal audit plan.

For Further Information Please Contact:

Antony Harvey
Audit Group Manager (SIAP)
Tel: 01962 845701
E-mail: antony.harvey@hants.gov.uk

Background Papers:

Internal Audit Plan 18-19

Internal Audit Progress Report

October 2018

New Forest District Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards - updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

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

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

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

2. Purpose of report

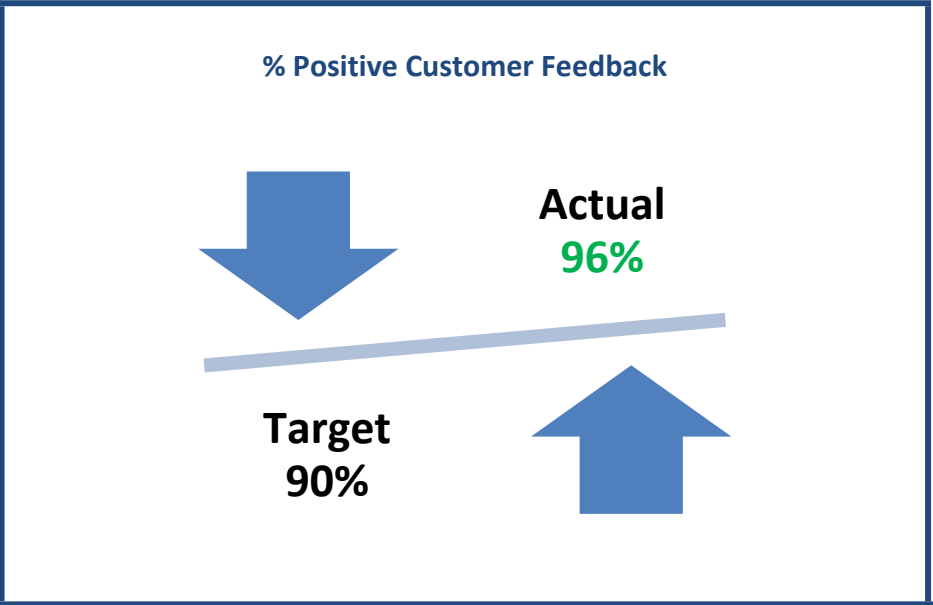
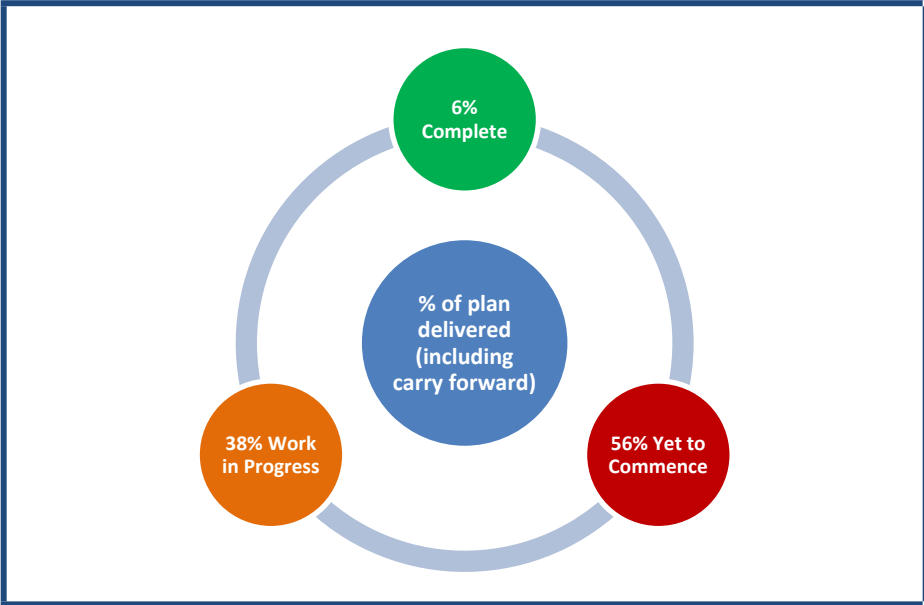
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

- Substantial** A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified
- Adequate** Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified
- Limited** Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk
- No** Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

3. Performance dashboard



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Compliance with Public Sector Internal Audit Standards / Local Government Application Note



An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. The report concluded:

*'It is our view that the Southern Internal Audit Partnership 'generally conforms' (top grading) to **all** of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).*

In accordance with PSIAS, a further self assessment was completed in April 2018 concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

4. Status of 'Live' Reports

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
<p>There are 27 outstanding actions from 10 audits relating to reviews completed prior to the 2017/18 audit plan (82 actions completed from the corresponding 10 audits). These actions will be tracked through to completion or on occasion, obsolescence if, for example, they are superseded by alternative actions to address the issues identified. Of the 27 outstanding actions, five are high priority and relate to the following areas:-</p> <ul style="list-style-type: none"> • ICT – VM upgrade. Current progress - The servers are being replaced. In the interim, to address current issues, more memory has been added to the servers, which has increased stability and taken the pressure off for the short term. All servers are planned to be running on the new virtual environment by the end of Jan 2019. • Payment Card Industry Data Security Standards (PCI DSS) Compliance. Current progress – There are elements of the current financial system and telephony system that are non compliant. These systems are due to be replaced in 2019. • Business Continuity. Current progress – A business continuity management policy has been developed including updated roles, responsibilities and an action plan for completion by the end of November 2018. This will be followed up in 2019/20 once implemented. 								
(Housing) Estates Management 2017/18	Sep-17	SM (HM)	Reasonable*	3 (0)	0 (0)	1 (0)	2 (0)	0 (0)
VAT 2017/18	Nov-17	HoF	Reasonable*	4 (0)	0 (0)	0 (0)	3 (0)	1 (0)
Accounts Payable 2017/18	Dec-17	HoF	Reasonable*	3 (0)	0 (0)	2 (0)	1 (0)	0 (0)
Health and Leisure Centres 2017/18	Jan-18	SM (H&L)	Limited*	35 (5)	0 (0)	1 (0)	32 (5)	2 (0)
Resident Involvement 2017/18	Jan-18	SM (EM&S)	Reasonable*	4 (0)	0 (0)	4 (0)	0 (0)	0 (0)
Trees (Council Owned) 2017/18	Feb-18	SM (OP)	Reasonable*	9 (1)	0 (0)	0 (0)	6 (1)	3 (0)
Income 2017/18	Mar-18	SM (BI&CS)	Reasonable*	10 (0)	0 (0)	2 (0)	4 (0)	4 (0)
Asset Management 2017/18	Mar-18	SM (E&V)	Substantial*	1 (0)	0 (0)	1 (0)	0 (0)	0 (0)

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Sundry Income (AR) 2017/18	Mar-18	HoF	Substantial*	5 (0)	0 (0)	1 (0)	4 (0)	0 (0)
Payroll (inc NFNPA testing, T&S Members, Allowances & Expenses) 2017/18	Jul-18	HoF / SM (HR)	Reasonable*	2 (0)	0 (0)	1 (0)	1 (0)	0 (0)
Vehicle and Plant Maintenance/Transport & Fleet Management System 2017/18	Jul-18	SM (W&T)	Reasonable*	3 (0)	0 (0)	1 (0)	2 (0)	0 (0)
Disabled Adaptation Funding **	Oct-18	SM (E&R)	Adequate	5 (0)	0 (0)	0 (0)	5 (0)	0 (0)

* Please see Annex A for the audit assurance opinion definitions in place prior to SIAP

** Denotes audits where all actions have been completed since the last progress report

Audit Sponsor	
Service Manager(Business Improvement & Customer Services)	SM (BI&CS)
Head of Finance	HoF
Service Manager (Estates & Valuation)	SM (E&V)
Service Manager (Human Resources)	SM (HR)
Service Manager (Legal)	SM(L)
Service Manager (Democratic Services & Member Support)	SM (DS&MS)
Service Manager (Estate Management & Support)	SM (EM&S)
Service Manager (Revenues & Benefits)	SM (R&B)
Service Manager (ICT)	SM (ICT)
Service Manager (Housing Options)	SM (HO)
Service Manager (Housing Maintenance)	SM (HM)
Service Manager (Environmental & Regulation)	SM (E&R)
Service Manager (Health & Leisure)	SM (H&L)
Service Manager (Waste & Transport)	SM (W&T)
Service Manager (Coastal & Public Facilities)	SM (C&PF)
Service Manager (Open Spaces)	SM (OS)

5. Executive Summaries of new reports published concluding a ‘Limited’ or ‘No’ assurance opinion

There are no new reports published concluding a ‘Limited’ or ‘No’ assurance opinion.

6. Planning & Resourcing

The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure the most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

The Internal Audit Plan for 2018-19 was discussed by EMT on 20 February 2018 and approved by the Audit Committee on 23 March 2018. The plan was developed following a review of key documents including the Corporate Plan; Strategic and Service Risk Registers; and our understanding of the organisation and key priorities for 2018-19.

Whilst some consultation took place, due to time constraints, individual, detailed meetings were not held with each Service Manager to discuss, for example, their concerns, planned service or system developments, legislative change etc. to inform the timing of audits (by year) and potential scope of the reviews. Following the Council formally joining the Partnership, meetings have been held with Service Managers to discuss their areas in more detail and identify how they can obtain the most value from Internal Audit. An indicative scope and timing has been agreed for the majority of areas originally included in the plan.

The consultation identified some areas where an audit in 2018-19 may not add as much value to the Council as a review in future years would bring due to, for example, the timing of planned developments within the Authority. These audit areas have tended to be of a more strategic, cross organisational or corporate governance nature rather than operational or service specific reviews.

Whilst we need to form an annual opinion on the Council’s risk management, internal control and governance arrangements, we also aim to cover all significant areas over a three year cycle and ensure, through collaboration, that the Council obtains maximum value from the Partnership.

The proposed revised plan identifies the audit areas, included in the 2018-19 plan based upon our initial assessment, where a review in subsequent years may be more beneficial to the Council. The revised plan also identifies areas to consider bringing forward into 2018-19.

The following proposed plan changes were discussed with Executive Heads on 30 July 2018:-

Audit	18-19 Original	18-19 Revised	Rationale
Corporate Plan	✓		Defer the 2018-19 review until the new corporate plan has been developed & agreed; and performance & monitoring frameworks have been orientated around the new plan.
Transformation	✓		Defer from 2018-19 until the ICT strategy has been delivered / IT enablers are in place.
Digital Agenda	✓		Defer from 2018-19 until the ICT strategy has been delivered / IT enablers are in place.
Contract Management		✓	Review of contract management arrangements and compliance across a selection of 'key contracts' – bring forward to replace deferred reviews.
Ethical Governance		✓	Assurance focussing on compliance with adopted codes and protocols ensuring relevant interests are transparent, declared and accurately recorded – bring forward to replace deferred reviews.
ICT - Business Continuity / Disaster Recovery Planning		✓	Assess Disaster Recovery Planning and Business Continuity to contribute to the identification of issues and whether the current plans to host infrastructure elsewhere will mitigate.
ICT Programme/Project Management		✓	Assurance focussing specially on ICT project/programme management given the significance to the Council / size of the programme to deliver the new strategy.
PCI - DSS		✓	Consultancy / advisory role to help the Council become Payment Card Industry – Data Security Standards compliant.
Grants & Returns	✓		No grant certification work required in 2018-19.
Economic Development	✓		Defer from 2018-19 to allow the new Economic Development Strategy 2018 – 2023 to embed and there is delivery against the strategy.

7. Rolling Work Programme

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Corporate / Cross Cutting									
Programme and Project Management	SM (BI&CS)							✓	Q3 / Q4
Financial Stability	HoF							✓	Q3 / Q4
Income Generation & Commercialisation	SM (E&V)							✓	Q3 / Q4
Working in Partnership	SM (BI&CS)							✓	Q3 / Q4
Corporate Governance									
Human Resources	SM (HR)							✓	Q4
Fraud & Irregularities	HoF							✓	Q4
Procurement	SM (L)							✓	Q3
Contract Management	SM (L)							✓	Q4
Information Governance	SM (L)							✓	Q3

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Ethical Governance	SM (DS&MS)	✓	✓	✓				✓	
Risk Management	SM (BI&CS)	✓	✓	✓				✓	
Financial Management									
Housing Rents	SM (EM&S)	✓	✓	✓	✓			✓	
Housing Benefits	SM (R&B)	✓	✓	✓				✓	
Council Tax	SM (R&B)	✓	✓	✓				✓	
Accounts Payable	HoF	✓	✓	✓	✓			✓	
Accounts Receivable / Debt Management	SM (R&B)	✓	✓	✓				✓	
Main Accounting	HoF	✓						✓	
Treasury Management	HoF	✓	✓	✓				✓	
NNDR	SM (R&B)	✓	✓	✓				✓	
Payroll	HoF / SM (HR)							✓	Q4

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Income Collection	SM (BI&CS)							✓	Q4
Information Technology									
IT Strategy and assurance mapping	SM (ICT)	✓	n/a	✓	n/a	n/a	n/a	✓	
Business Continuity / Disaster Recovery Planning	SM (ICT)							✓	Q4
ICT Programme / Project Management	SM (ICT)	✓	✓					✓	
PCI DSS	SM (ICT)	✓						✓	
Portfolio Themes									
Homelessness & Affordable Housing	SM (HO)							✓	Q3
Housing Asset Management	SM (HM)							✓	Q3 / Q4
Housing Finance								✓	Q3 / Q4
Disabled Adaptation Funding	SM (E&R)	✓	✓	✓	✓	✓	Adequate	✓	
Health & Leisure Facilities	SM (H&L)							✓	Q4
Environmental Services	SM (W&T)	✓	✓	✓	✓			✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Licensing	SM (E&R)							✓	Q4
Development / Building Control	SM (C&PF)							✓	Q3
Establishment Reviews	HoF							✓	Q4

Annex A

Audit Assurance Opinion Definitions in place prior to SIAP

Substantial - A strong system of internal controls, designed and operating effectively.

Reasonable - A sound system of internal controls; but one where minor weaknesses were found in the system design, or lack of compliance to the design;

Limited - Some weakness was identified in the overall system of controls, or the level of compliance resulted in risk to the achievement of system objectives;

No - Fundamental weakness was identified within one or more key controls, or controls were not operating effectively which may put at risk the achievement of the corporate control objective.

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AUDIT COMMITTEE 26 OCTOBER 2018

TREASURY MANAGEMENT MID-YEAR MONITORING REPORT 2018/19

1. PURPOSE

- 1.1. New Forest District Council adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice, which includes an annual report on the treasury management strategy after the end of each financial year as well as a mid year monitoring report.

2. SUMMARY

- 2.1. The Council's Treasury Management Strategy (TMS) for 2018/19 was approved at a meeting of the Council in February 2018. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's TMS.
- 2.2. Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England the Ministry of Housing, Communities & Local Government (MHCLG) published its revised Investment Guidance which came into effect from April 2018.
- 2.3. The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full council covering capital expenditure and financing, treasury management and non-treasury investments. The Council will be producing its Capital Strategy later in 2018/19 for approval by Council.
- 2.4. Treasury management in the context of this report is defined as:

"The management of the organisation's investments and 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."
- 2.5. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.
- 2.6. All treasury activity has complied with the Council's TMS and Investment Strategy for 2018/19, and all relevant statute, guidance and accounting

standards. In addition the Council's treasury advisers, Arlingclose, provide support in undertaking treasury management activities. The Council has also complied with all of the prudential indicators set in its TMS.

3. EXTERNAL CONTEXT

- 3.1. The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions have been made to date in 2018/19.

Economic commentary

- 3.2. UK Consumer Price Inflation (CPI) index fell to 2.4% in June, a 12-month low, as the effects of sterling's large depreciation in 2016 began to fade. However CPI ticked back up marginally to 2.5% in July, mostly due to higher energy prices, and up again to 2.7% in August from cultural services, where theatre admission prices rose by more than a year ago, and games, toys and hobbies, where prices for computer games rose this year but fell a year ago. The most recent labour market data for July 2018 showed the unemployment rate at 4%; the lowest since 1975. The three month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9%. However, real wages (i.e. adjusted for inflation) grew only by 0.4%, a marginal increase unlikely to have had much effect for households.
- 3.3. The rebound in Gross Domestic Product (GDP) growth in Quarter 2 of 2018 to 0.4% confirmed that the weakness in economic growth in Quarter 1 was temporary and largely due to weather-related factors. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking the Bank Rate to 0.75%. No further change was made to monetary policy at the Bank of England's meeting in September.

Credit background

- 3.4. The big four UK banks are progressing well with ringfencing. Barclays Bank PLC and HSBC Bank PLC have created new banks (Barclays Bank UK and HSBC UK Bank) and transferred ringfenced (retail) business lines into the new companies. Lloyds Bank PLC has created Lloyds Bank Corporate Markets as a new non-ringfenced (investment) bank. RBS has renamed existing group entities and transferred accounts to leave NatWest Markets as the non-ringfenced bank and NatWest Bank, Royal Bank of Scotland and Ulster Bank as the ring-fenced banks. The Council's day-to-day banking contract remains with Lloyds Bank PLC.

4. LOCAL CONTEXT

- 4.1. On 31 March 2018, the Council had net borrowing of £82.9m arising from financing its housing programme. The underlying need to borrow for

capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below:

Table 1: Balance Sheet Summary

	31/03/2018 Balance £m
General Fund CFR	(5.5)
Housing Revenue Account CFR	(1.9)
HRA Settlement	(138.6)
Total CFR	(146.0)
Less: Resources for investment	63.1
Net borrowing	(82.9)

- 4.2. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 30 September 2018 and the year-on-year change is shown in Table 2 below:

Table 2: Treasury Management Summary

	31/03/2018 Balance £m	Movement £m	30/09/2018 Balance £m	30/09/2018 Rate %
Long-term borrowing	(135.5)	0.1	(135.4)	(3.21)
Short-term borrowing	(4.3)	-	(4.3)	(1.80)
Total borrowing	(139.8)	0.1	(139.7)	(3.17)
Long-term investments	21.2	4.7	25.9	2.73
Short-term investments	36.7	5.2	41.9	0.82
Cash and cash equivalents	5.2	5.0	10.2	0.70
Total investments	63.1	14.9	78.0	1.44
Net borrowing	(76.7)	15.0	(61.7)	

Note: the figures in the table above are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

- 4.3. The reduction in net borrowing of £15m shown in Table 2 above reflects the combination of repayment of Public Works Loan Board (PWLB) borrowing of £0.1m, and an increase in investment balances of £14.9m. The repayment of borrowing is in line with the Council's policy on internal borrowing, whilst the increase in total investments since 31 March 2018 reflects the annual position of 31 March being the lowest point for investment balances, due to many government grants being front-loaded.

5. BORROWING ACTIVITY

- 5.1. As shown in Table 2, at 30 September 2018 the Council held £139.7m of loans, a decrease of £0.1m to 31 March 2018, with the vast majority of loans being in relation to the resettlement of the HRA in 2012/13. The mid-year treasury management borrowing position and movement since 31 March 2018 is shown in Table 3 below.

Table 3: Borrowing Position

	31/03/2018 Balance £m	Movement £m	30/09/2018 Balance £m	30/09/2018 Rate %	30/09/2018 WAM* years
Public Works Loan Board	139.8	(0.1)	139.7	3.17	16.82
Total borrowing	139.8	(0.1)	139.7	3.17	16.82

* Weighted average maturity

Note: the figures in the table above are from the balance sheet in the Council's statement of accounts, but adjusted to exclude accrued interest.

- 5.2. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
- 5.3. In keeping with these objectives, no new borrowing was undertaken in the period, while £0.1m of existing loans were allowed to mature without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 5.4. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with the monitoring of internal and external borrowing.

6. INVESTMENT ACTIVITY

- 6.1. The Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. The Council's investment holding was £77.4m principal at 30 September 2018, which was £0.4m (0.5%) higher than the same time last year. During the six month period from 1 April to 30 September 2018, the Council's investment balance ranged between £64m and £93m due to timing differences between income and expenditure. Table 4 below shows investment activity for the Council as at 30 September 2018 in comparison to the reported activity as at 31 March 2018. Asset values have been used rather than principal values to provide a better comparison to the reported investment activity as at 31 March 2018.

Table 4: Investment Position (Treasury Investments)

Investments	31/03/2018 Balance £m	Movement £m	30/09/2018 Balance £m	30/09/2018 Rate %	30/09/2018 WAM* years
Short term Investments					
Banks and Building Societies:					
- Unsecured	3.5	10.4	13.9	0.73	0.11
- Secured	10.1	(4.6)	5.5	1.06	0.38
Money Market Funds	2.2	4.1	6.3	0.70	0.00
Local Authorities	16.0	(3.0)	13.0	0.75	0.36
Corporate Bonds	6.1	1.2	7.3	0.70	0.20
Registered Providers	4.0	-	4.0	1.25	0.35
Cash Plus Funds	0.0	2.0	2.0	0.68	n/a
	42.0	10.0	52.0	0.80	0.22
Long term investments					
Banks and Building Societies:					
- Secured	8.1	(0.1)	8.0	0.96	2.60
Local Authorities	2.0	4.0)	6.0	1.25	2.17
	10.1	3.9	14.0	1.09	2.42
High yield investments					
Pooled Property Funds**	6.2	0.5	6.7	4.20	n/a
Pooled Equity Funds**	3.0	0.2	3.2	6.05	n/a
Pooled Multi-Asset Funds**	2.0	-	1.9	4.08	n/a
	11.1	0.8	11.9	4.68	n/a
TOTAL INVESTMENTS	63.2	14.8	78.0	1.44	0.70

* Weighted average maturity

** The rates provided for pooled fund investments are reflective of the average of the most recent dividend return as at 30 September 2018.

Note: the figures in the table above are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash and accrued interest.

- 6.2. Both the CIPFA Code and the government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the highest rate of return, or yield. The Council's objective when investing 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.
- 6.3. During the first half of 2018/19, total investment balances increased by £14.8m, which is in line with what is expected at this point in the year; this is due to the receipt of council tax, as well as the receipt of front-loaded grant. £10m of this balance has been invested in short term options due to the requirement to pay out these balances within the next 12 months. Long term investment balances, including high yield investments, have increased by £4.7m; these balances have been invested in instruments which provide an increased rate of return, as well as not being liable to bail-in risk. Currently a further £1m has been committed to pooled

property funds, which will be invested in tranches during October and November 2018.

- 6.4. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19.
- 6.5. Counterparty credit quality was assessed and monitored with reference to credit ratings, for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 6.6. The Council will also consider the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 6.7. The Council maintained a sufficient level of liquidity through the use of call accounts and money market funds. The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate increased by 0.25% to 0.75% in August 2018 and short-term money market rates have remained at relatively low levels which continued to have a significant impact on cash investment income.
- 6.8. The progression of credit risk and return metrics for the Council's investments managed in-house (excluding external pooled funds) are shown in the extracts from Arlingclose's investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking

	Credit Rating	Bail-In Exposure	WAM* (days)	Rate of Return
31/03/2018	AA	11%	302	0.73%
30/09/2018	AA+	25%	257	0.82%
Similar LAs	AA-	56%	88	0.78%
All LAs	AA-	60%	37	0.76%

* Weighted average maturity

- 6.9. In Table 5 above, the bail-in exposure of the Council's investments that are managed in-house has increased and the weighted average maturity of these investments has reduced when comparing the position at 30 September to 31 March 2018 – this is a direct result of total investment balances increasing at this time of year, due to the receipt of council tax and front-loaded grant. However both of these measures still compare favourably to both similar local authorities and all local authority clients of Arlingclose.
- 6.10. The Council has targeted a proportion of funds towards high yielding investments as shown in Table 4. Investments yielding higher returns will contribute additional income to the Council, although some come with the risk that they may suffer falls in the value of the principal invested.
- 6.11. The £11.9m portfolio of externally managed pooled multi-asset, equity and property funds generated an average total return of 7.63%, comprising 4.67% income return used to support services in year, and 2.95% of capital growth. As 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 are regularly reviewed.

- 6.12. The investments in pooled funds allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds, which are operated on a variable net asset value (VNAV) basis, offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Council's pooled fund investments are in the respective funds' distributing share classes which pay out the income generated. The Council's intention is to hold them for at least the medium term.
- 6.13. MHCLG released a consultation on statutory overrides relating to the introduction of IFRS 9 Financial Instruments accounting standard from 2018/19. The consultation recognises that the requirement in IFRS 9 for certain investments to be accounted for a fair value through profit and loss may introduce "more income statement volatility" which may impact on budget calculations. The consultation proposes a time-limited statutory override and has sought views whether it should be applied only to pooled property funds. The Council has responded to the consultation which closed on 30 September. The Council's response stated that the Council agrees that there should be a statutory override, but that it should not be time limited, as the circumstances meaning an override is appropriate now will still apply in April 2021 and beyond. The statutory override should apply to all pooled investment funds, as the Council sees no reason for the Government to incentivise property funds over other pooled funds. Good treasury risk management requires long-term investments to be diversified over a range of asset classes, and the government should support this by extending the proposed override to all types of collective investment scheme.

7. NON-TREASURY INVESTMENTS

- 7.1. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 7.2. The Council's investment property holdings totalled £4.695m as at 31/03/18. No purchases have been made in the period between 01/04/18 – 30/09/2018. These investment holdings are expected to generate £216k of investment income for the Council in 2018/19 after taking into account direct costs, representing a rate of return of 4.6%.

8. COMPLIANCE REPORT

- 8.1. The Council confirms compliance of all treasury management activities undertaken during the period with the CIPFA Code of Practice and the Council's approved revised Treasury Management Strategy. Compliance with specific investment limits, as well as the authorised limit and operational boundary for external debt, is demonstrated in Tables 6 and 7 below.

Table 6: Debt Limits

	2018/19 Maximum £m	30/09/2018 Actual £m	2018/19 Operational Boundary £m	2018/19 Authorised Limit £m	Complied
Total debt	141.8	139.7	191.2	206.4	✓

Table 7: Investment Limits

	2018/19 Maximum	30/09/2018 Actual	2018/19 Limit	Complied
Any single organisation, except the UK Central Government	£5.5m	£5.5m	£12m	✓
Any group of organisations under the same ownership	£5.5m	£5.5m	£12m	✓
Any group of pooled funds under the same management	£5.5m	£5.5m	£12m	✓
Registered providers	£4m	£4m	£10m	✓
Money market funds	11%	8%	50%	✓

9. TREASURY MANAGEMENT INDICATORS

- 9.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures

- 9.2. This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

Table 8: Interest Rate Exposures

	30/09/2018 Actual	2018/19 Limit	Complied
Upper limit on fixed interest rate investment exposure	£6m	£40m	✓
Upper limit on variable interest rate investment exposure	£71m	£120m	✓
Upper limit on fixed interest rate borrowing exposure	£135.4m	£206.4m	✓
Upper limit on variable interest rate borrowing exposure	£4.3m		✓

- 9.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

- 9.4. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 9: Maturity Structure of Borrowing

	30/09/2018 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	9%	25%	0%	✓
5 years and within 10 years	15%	25%	0%	✓
10 years and above	70%	100%	0%	✓

Principal Sums Invested for Periods Longer than 365 days

- 9.5. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Table 10: Principal Sums Invested for Periods Longer than 365 days

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£26m	£19m	£15m
Limit on principal invested beyond year end	£40m	£40m	£40m
Complied	✓	✓	✓

10. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

- 10.1. None arising directly from this report.

11. RECOMMENDATIONS

Members are recommended to:

- 11.1. consider the performance of the treasury function detailed in this report.

Further information	Background papers
Please contact Andrew Boutflower (HCC), or Alan Bethune	The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance
	Local Government Act 2003
email: andrew.boutflower@hants.gov.uk alan.bethune@nfdc.gov.uk	SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
	<p>Treasury Management Strategy Report 2018/19 Audit Committee – 26 January 2018 Council – 26 February 2018</p> <p>Treasury Management Mid-Year Monitoring Report 2017/18 Audit Committee – 25 August 2017</p> <p>Treasury Management Annual Outturn Report 2017/18 Audit Committee – 31 May 2018 Cabinet – 4 July 2018 Council – 9 July 2018</p>
	Published Papers

AUDIT COMMITTEE – 26 OCTOBER 2018

AUDIT COMMITTEE – WORK PLAN

1.0 WORK PLAN

- 1.1 This report details the draft work plan for the Audit Committee for 2018/19.
- 1.2 The work plan may evolve during the year, due to, for example, any changes in legislation, change relating to the External Auditor timetables, or new reports which need to be brought to the attention of the Committee.

2.0 FINANCIAL IMPLICATIONS

- 2.1 There are no financial consequences directly arising from this report.

3.0 EQUALITY & DIVERSITY, CRIME AND DISORDER AND ENVIRONMENTAL MATTERS

- 3.1 There are no equality and diversity, crime or disorder or environmental matters directly associated with this report.

4.0 RECOMMENDATIONS

- 4.1. That the Audit Committee considers and approves the Work Plan as appended and informs Officers of any requested changes.

For Further Information Contact:

Andy Rogers
Committee Administrator
Tel: 02380 285588
Andy.rogers@nfdc.gov.uk

Audit Committee Work Plan 2018/19

DATE	WORK / REPORTS
25 January 2019	External Audit Plan Summary Strategic Risk Register Treasury Management Strategy External Auditor – Annual Audit Letter Certification of Claims and Returns Annual Report Internal Audit Progress Against the Audit Plan
	(Provisional Dates)
29 March 2019	External Audit Planning Report 2018/19 Internal Audit Progress Report 2018/19 Internal Audit Plan 2019/20 Internal Audit Charter 2019/20 Fraud Update Report Risk Update
31 May 2019	Treasury Management Out-turn Report 20/08/19 Local Code of Good Governance Review Draft Annual Governance Statement Draft Annual Financial Report Final Accounts Bad Debts Write-offs 20/08/19 Procurement Waivers 2018/19 Annual Internal Audit and Opinion Report 2018/19
26 July 2019	Audit Results Report 2018/19 Annual Governance Statement 2018/19 Annual Financial Report 2018/19