

## NOTICE OF MEETING

**Meeting:** AUDIT COMMITTEE

**Date and Time:** FRIDAY, 31 MAY 2019, AT 10.00 AM\*

**Place:** COMMITTEE ROOM 1, APPLETREE COURT,  
LYNDHURST

**Telephone enquiries to:** Lyndhurst (023) 8028 5000  
023 8028 5588 - ask for Andy Rogers  
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PLEASE NOTE START TIME
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### **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  
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**This Agenda is also available on audio tape, in Braille, large print and digital format**

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## AGENDA

### **Apologies**

#### **1. MINUTES**

To confirm the minutes of the meeting held on 29 March and 20 May 2019 as correct records.

#### **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. TREASURY MANAGEMENT ANNUAL OUTTURN REPORT 20/08/19**  
(Pages 1 - 10)

To consider the Treasury Management Annual Outturn Report for 2018/19.

**5. PROCUREMENT RULES, REGULATIONS & CONTRACT STANDING ORDERS - WAIVERS 2018/19** (Pages 11 - 14)

To consider the Procurement Rules, Regulations & Contract Standing Orders – Waivers Report for 2018/19.

**6. FINAL ACCOUNTS BAD DEBTS WRITE OFFS 2018/19** (Pages 15 - 20)

To consider the Final Accounts Bad Debts Write-offs Report for 2018/19.

**7. FRAUD REPORT** (Pages 21 - 24)

To consider the Fraud Report for 2018/19.

**8. ANNUAL INTERNAL AUDIT REPORT AND OPINION 2018/19** (Pages 25 - 38)

To consider the Annual Internal Audit Report and Opinion for 2018/19.

**9. LOCAL CODE OF GOOD GOVERNANCE REVIEW** (Pages 39 - 46)

To consider the Local Code of Good Governance Review for 2018/19.

**10. DRAFT ANNUAL GOVERNANCE STATEMENT - 2018/19** (Pages 47 - 54)

To consider the draft Annual Governance Statement for 2018/19.

**11. DRAFT ANNUAL FINANCIAL REPORT (TO FOLLOW)**

To consider the draft Annual Financial Report for 2018/19.

**12. AUDIT COMMITTEE WORK PLAN** (Pages 55 - 56)

To consider the Audit Committee's Work Plan.

**13. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT**

To:

**Councillors:**

Alan O'Sullivan (Chairman)  
Emma Lane (Vice-Chairman)  
Alan Alvey  
Hilary Brand

**Councillors:**

Mahmoud Kangarani  
Martyn Levitt  
Ann Sevier  
John Ward

## AUDIT COMMITTEE 31 MAY 2019

### TREASURY MANAGEMENT ANNUAL OUTTURN REPORT 2018/19

#### 1. PURPOSE

- 1.1. New Forest District Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the Authority to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report.

#### 2. SUMMARY

- 2.1. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 2.2. The Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2019. 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 treasury management strategy.
- 2.3. 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.”
- 2.4. This annual report sets out the performance of the treasury management function during 2018/19, to include the effects of the decisions taken and the transactions executed in the past year.
- 2.5. Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since March 2014 but 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 revised Treasury Management Strategy and Investment Strategy for 2018/19, and all relevant statute, guidance and accounting standards. In addition support in undertaking treasury management activities has been provided by the Council's treasury advisers, Arlingclose. The Council has also complied with all of the prudential indicators set in its Treasury Management Strategy.

### 3. EXTERNAL CONTEXT

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

#### **Economic commentary**

- 3.2. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.
- 3.3. After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.
- 3.4. While the domestic focus has been on Brexit's potential impact on the UK economy, which has weighed on sterling and UK markets, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

#### **Financial markets**

- 3.5. Markets for riskier asset classes fell in December 2018, most notably for equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.
- 3.6. Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

## Credit background

- 3.7. Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.
- 3.8. The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.
- 3.9. In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.
- 3.10. There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

## 4. LOCAL CONTEXT

- 4.1. At 31 March 2019 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £141.3m, while usable reserves and working capital which are the underlying resources available for investment were £64.3m (principal invested plus gains on investments with a variable net asset value). These factors and the year-on-year change are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/18 Balance £m	Movement £m	31/03/19 Balance £m
General Fund CFR	(5.5)	0.6	(4.9)
Housing Revenue Account CFR	(1.9)	-	(1.9)
HRA Settlement	(138.6)	4.1	(134.5)
<b>Total CFR</b>	<b>(146.0)</b>	<b>4.7</b>	<b>(141.3)</b>
Less: Resources for investment	63.1	1.2	64.3
<b>Net borrowing</b>	<b>(82.9)</b>	<b>5.9</b>	<b>(77.0)</b>

- 4.2. The combination of overall CFR reducing due to the repayment of maturing Public Works Loan Board (PWLB) debt, the application of MRP, and resources for investment increasing during 2018/19 resulted in decreased net borrowing.

- 4.3. The Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position as at 31 March 2019 and the year-on-year change is shown in Table 2 below.

Table 2: Treasury Management Summary

	31/03/18 Balance £m	Movement £m	31/03/19 Balance £m	31/03/19 Rate %
Long-term borrowing	(135.5)	4.3	(131.2)	3.25
Short-term borrowing	(4.3)	0.0	(4.3)	2.02
Total borrowing	(139.8)	4.3	(135.5)	3.21
Long-term investments	21.2	7.6	28.8	2.93
Short-term investments	36.7	(8.0)	28.7	1.08
Cash and cash equivalents	5.2	1.6	6.8	0.79
Total investments	63.1	1.2	64.3	1.88
Net borrowing	(76.7)	5.5	(71.2)	

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.

- 4.4. The Council's internal borrowing policy is the reason for the variance between the positions shown in Tables 1 and 2. Net borrowing in Table 2 has reduced during 2018/19 due to the repayment upon maturity of PWLB loans and an increase in balances available for investment. There has also been some movement between categories of investments, including increasing the balances held in strategic long term pooled funds by £2.5m.

## 5. BORROWING ACTIVITY

- 5.1. At 31 March 2019 the Council held £135.5m of loans, a decrease of £4.3m on the previous year, with the vast majority of the loan being in relation to the resettlement of the HRA in 2012/13. The year-end treasury management borrowing position and year-on-year change is shown in Table 3 below.

Table 3: Borrowing Position

	31/03/18 Balance £m	Movement £m	31/03/19 Balance £m	31/03/19 Rate %	31/03/19 WAM* years
Public Works Loan Board	139.8	(4.3)	135.5	3.21	16.82
Total borrowing	139.8	(4.3)	135.5	3.21	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. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

- 5.3. Short-term interest rates have remained much lower than long-term rates and the County Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.
- 5.4. With the assistance of Arlingclose, the benefits of this internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years, when long-term borrowing costs may be higher.
- 5.5. During 2018/19 the Council repaid £4.3m of maturing PWLB debt and did not replace this borrowing. This will reduce the future cost of interest payments on the Council's external debt.

## 6. INVESTMENT ACTIVITY

- 6.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year the Council's investment balances have ranged between £63.5m and £105.7m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4 below.

Table 4: Investment Position (Treasury Investments)

Investments	31/03/2018 Balance £m	Movement £m	31/03/2019 Balance £m	31/03/19 Rate %	31/03/19 WAM* years
<b>Short term Investments</b>					
- Banks and Building Societies:					
- Unsecured	3.5	4.5	8.0	0.95	0.17
- Secured	10.1	(4.4)	5.7	1.26	0.52
- Money Market Funds	2.2	4.6	6.8	0.79	0.00
- Local Authorities	16.0	(5.0)	11.0	0.85	0.36
- Corporate Bonds	6.1	(6.1)	0.0	-	-
- Registered Providers	4.0	(2.0)	2.0	1.92	1.00
- Cash Plus Funds	-	2.0	2.0	1.50	n/a
	<b>41.9</b>	<b>(6.4)</b>	<b>35.5</b>	<b>1.02</b>	<b>0.31</b>
<b>Long term investments</b>					
- Banks and Building Societies:					
- Secured	8.1	(1.1)	7.0	1.14	2.33
- Local Authorities	2.0	2.0	4.0	1.38	2.07
- Registered Providers	-	4.0	4.0	1.93	2.00
	<b>10.1</b>	<b>4.9</b>	<b>15.0</b>	<b>1.41</b>	<b>2.17</b>
<b>High yield investments</b>					
- Pooled Property Funds**	6.1	1.5	7.6	4.33	n/a
- Pooled Equity Funds**	3.0	0.0	3.0	5.25	n/a
- Pooled Multi-Asset Funds**	2.0	1.0	3.0	4.74	n/a
	<b>11.1</b>	<b>2.5</b>	<b>13.6</b>	<b>4.62</b>	<b>n/a</b>
<b>TOTAL INVESTMENTS</b>	<b>63.2</b>	<b>0.9</b>	<b>64.1</b>	<b>1.87</b>	<b>0.89</b>

\* Weighted average maturity, excluding pooled funds

\*\* The rates provided for pooled fund investments are reflective of the average of the most recent dividend return as at 31 March 2019.

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. The CIPFA Code and government guidance both require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against the risk of receiving unsuitably low investment income.
- 6.3. Security of capital has remained the Council's main investment objective and has been maintained by following the Council's counterparty policy, as set out in its Treasury Management Strategy Statement for 2018/19.
- 6.4. Counterparty credit quality was assessed and monitored with reference to credit ratings, the analysis of funding structures and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 6.5. The Council also makes use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 6.6. To reduce risk, 69% of the Council's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, registered providers, secured bank bonds and pooled funds. Of the remaining balance, the majority is invested in overnight money market funds and cash plus funds, which are subject to reduced bail in risk, or in short duration certificates of deposit. By comparison, only 47% of the cash held by other similar Local Authorities is not subject to bail-in risk
- 6.7. The UK Bank Rate increased marginally by 0.25% in August 2018 to 0.75% and with short-term money market rates also remaining relatively low, there has been an ongoing impact on the Council's ability to generate income on cash investments.
- 6.8. Against this backdrop, the Council has sought to optimise returns commensurate with the objectives of security and liquidity, achieving an average rate of return of 0.91% on internally managed funds during 2018/19 whilst also maintaining sufficient liquidity through the use of call accounts and money market funds.
- 6.9. In readiness for Brexit, and with the uncertainty around potential outcomes, the Council ensured there were enough accounts open at UK domiciled banks and money market funds to hold sufficient liquidity over the year end and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency.



- 6.10. The progression of credit risk and return metrics for the Council's investments managed in-house are shown in extracts from Arlingclose's investment benchmarking in Table 5 below. This compares the data for the quarter ended 31 March 2019 with the same period from the previous year.

Table 5: Investment Benchmarking (excluding pooled funds)

	Credit Rating	Bail-In Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2018	AA	11%	302	0.73%
31.03.2019	AA-	31%	325	1.11%
Similar LAs	AA-	53%	86	0.86%
All LAs	AA-	55%	29	0.85%

- 6.11. In order to minimise the risk of receiving unsuitably low investment income, the Council has continued to invest in externally managed pooled funds as part of its high yielding strategy, increasing the amount invested in these funds by £2.5m during 2018/19.
- 6.12. These investments in pooled property, equity and multi-asset funds allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments, with £13.6m now invested. A further £2m is held in cash plus funds.
- 6.13. These funds are likely to be more volatile than cash in the short-term but generate regular revenue income whilst also providing diversification and the potential for enhanced returns over the longer term.
- 6.14. The £15.6m portfolio of externally managed funds generated an average return of 4.67% in the year to 31 March 2019, comprising 4.10% income return to support services in year, and 0.57% of capital growth. By comparison, the average rate of income return for internal investments was 0.91%, giving an average rate of income return across the whole investment portfolio of 1.39% (NB. Figures in table 4 are as at 31/03/19, the figures as quoted in this para are average throughout the 2018/19 financial year).
- 6.15. Although money can usually be redeemed from the pooled funds at short notice, the Council's intention is to hold them for at least the medium-term. Investments are made in the knowledge that capital values will move both up and down in the short term, but with the confidence that over a three- to five- year period total returns should exceed cash interest rates.
- 6.16. The performance and ongoing suitability of these pooled funds in meeting the Council's investment objectives is monitored regularly and discussed with Arlingclose

## 7. FINANCIAL IMPLICATIONS

- 7.1. The outturn for debt interest paid (HRA) in 2018/19 matched the budget set at £4.41m.
- 7.2. The outturn for investment income received in 2018/19 was £1.148m on an average investment portfolio of £82.86m, therefore giving a yield of 1.39%. In the context of 1.02% being achieved in 2017/18, and an original budgeted target of £0.857m, this is a positive outturn result for the Council.
- 7.3. The budget for interest payable (HRA) has been reduced within the base budget for 2019/20, in reflection of the principal repayments commencing from 2017/18. The Interest earning target for 2019/20 has been left at a level similar to the original budget for 2018/19, on the assumption that cash balances will reduce as a result of the Council implementing its Commercial and Residential Property Strategies.

## 8. OTHER NON-TREASURY HOLDINGS AND ACTIVITY

- 8.1. 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.
- 8.2. This could include service investments for operational and/or regeneration reasons as well as commercial investments which are made mainly for financial reasons.
- 8.3. The Council's existing non-treasury investments are listed in Table 6 below.

Table 6 – Non-Treasury Investments	31/03/19 Asset value £m	31/03/19 Rate of Return
Hythe Marina	2.54	6.26%
Saxon Inn Calmore	0.18	7.10%
Meeting House Lane	0.13	-
New Milton Health Centre	2.33	5.62%
<b>Total</b>	<b>5.18</b>	<b>5.85%</b>

- 8.4. In 2017/18, the Council purchased an investment property. This was the first purchase of this type for many years, and was completed as a result of the Council's adoption of the Asset Investment Strategy in February 2017. No investment property purchases were made in 2018/19.
- 8.5. The Council's investment property holdings total £5.18m as at 31/03/19. The Investment Property note within the Annual Financial Report gives further information on the net gains / losses, and fair value movements.

## 9. COMPLIANCE REPORT

9.1. The Council confirms compliance of all treasury management activities undertaken during 2018/19 with the CIPFA Code of Practice and the Council's approved revised Treasury Management Strategy.

9.2. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 7 below.

Table 7: Debt Limits

	2018/19 Maximum £m	31/03/19 Actual £m	2018/19 Operational Boundary £m	2018/19 Authorised Limit £m	Complied
Total debt	139.8	135.5	180.9	196.2	✓

9.3. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

## 10. TREASURY MANAGEMENT INDICATORS

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

### Interest Rate Exposures

10.2. The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates.

Table 8 – Interest Rate Exposures

	31/03/19 Actual	Impact of +/- 1% interest rate change
Variable interest rate investment exposure	£40.6m	+/- £0.4m
Variable interest rate borrowing exposure	£0.0m	+/- £0.0m

10.3. 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

10.4. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement:

Table 9: Maturity Structure of Borrowing

	31/03/19 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	10%	25%	0%	✓
5 years and within 10 years	15%	25%	0%	✓
10 years and above	69%	100%	0%	✓

### Principal Sums Invested for Periods Longer than 364 days

10.5. 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 364 days

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£28.6m	£19.6m	£16.6m
Limit on principal invested beyond year end	£40m	£40m	£40m
Complied	✓	✓	✓

## 11. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

11.1. None arising directly from this report.

## 12. RECOMMENDATIONS

Members are recommended to:

12.1. consider the performance of the treasury function detailed in this report.

Further information	Background papers
Please contact;  Rob Sarfas Senior Accountant Investments & Borrowing Hampshire County Council rob.sarfas@hants.gov.uk  Alan Bethune Head of Finance (S151) New Forest District Council alan.bethune@nfdc.gov.uk	The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance  Local Government Act 2003  SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003  Treasury Management Strategy Report 2018/19 Audit Committee – 26 January 2018 Council – 26 February 2018  Treasury Management Mid-Year Monitoring Report 2018/19 Audit Committee – 26 October 2018

AUDIT COMMITTEE – 31 MAY 2019

## PROCUREMENT RULES, REGULATIONS & CONTRACT STANDING ORDERS – WAIVERS 2018/19

### 1. PURPOSE OF REPORT

- 1.1 This report updates Members on waivers to Procurement Rules, Regulations & Contract Standing Orders approved during 2018/19.

### 2. BACKGROUND

- 2.1 The Procurement Rules, Regulations & Contract Standing Orders provide the rules to be followed for the procurement of goods, services and works and ensure that the Council complies with Procurement Legislation whilst obtaining Value for Money in Purchasing.
- 2.2 Procurement Rules, Regulations & Contract Standing Orders must be followed by all individuals responsible for Procurement for, or on behalf of the Council.
- 2.3 The Regulations provide for limited exceptions to the prescribed rules which include the following:
- Procurement through a Consortium or similar body that the Council is a member of
  - Works carried out under an Agency arrangements which states that the Standing Orders of the Principal Authority apply
  - Appointment of specialist experts for legal matters and proceedings
  - Appointment of Counsel by Legal Services.
- 2.4 Where the above exceptions do not apply and a Contract Administrator has a valid reason for not complying with Standing Orders, an application for a waiver may be submitted for approval. Table 1 shows the level of approval required for waivers for 2018/19:

Table 1 – Delegated authority to approve waivers

Value of Contract	Approval Required
£0 – EU Procurement Levels	Executive Head of Governance and Regulation, Service Manager Legal, Solicitor

### 3. WAIVERS GRANTED 2018/19

- 3.1 There were 14 applications for a waiver against the Procurement Rules, Regulations and Contract Standing Orders between 1 April 2018 and 31 March 2019, of which 4 were approved. The total value of all approved waivers was £409,695.00. This compares with 39 applications submitted during 2017/18, with approved waivers totalling £2,964,979.96.

- 3.2 A summary of the total number and value by waived standing order is detailed in Table 2.

Table 2 – Applications by standing order waived

<b>Ref</b>	<b>Contract Standing Order (SO) Paragraph Number and Detail</b>	<b>Description of Contract</b>	<b>Total Value</b>
13/18/19	SO6 Where the estimated value of a contract is between £15,000 and £25,000 a minimum of three quotations must be invited (via desk-top quotation) for a works, goods or services contract.	Network Services Agreement - PSN Services	£19,230.00
10/18/19	SO7 Where the estimated value of a works, goods or services contract is between £25,000 and £50,000 suitable suppliers for a restricted quotation should be nominated by the Service team and confirmed with Procurement. Procurement will invite quotations via the e-procurement system.	Waste Skips Temporal Contract	£28,739.36
5/18/19	SO9 Where the estimated contract value for a works, goods or services contract exceeds £50,000 but does not exceed the relevant EU public procurement threshold (*see Annex A for EU threshold £ values) or does not fall within a category subject to the EU public procurement rules, an open tender should be issued by the Procurement team	Hanover House and Elizabeth House - Refurbishment of communal areas	£261,000.00
14/18/19	SO21 Under Public Contracts Regulations 2015 (Reg 72), a modification to an existing pre-tendered contract may be possible, without the need to re-advertise or retender, in certain limited circumstances.	Hanover House - replacement roof coverings	£100,726.00
			<b>£409,695.36</b>

- 3.3 Two waivers were over £100,000 in value.
- 3.3 There were 10 waivers that were rejected during the year. The reason for the majority of rejections was due to insufficient reason to grant the waiver. On two occasions, these waiver requests were then resubmitted and subsequently approved.

#### **4. FINANCIAL IMPLICATIONS**

- 4.1 Procurement Rules, Regulations and Contract Standing Orders ensure that the most economically advantageous price is obtained in Procurement. Waivers sought need to demonstrate that where tenders or quotations are not obtained, that Value for Money can still be demonstrated.

## **5. CRIME & DISORDER IMPLICATIONS**

- 5.1 Procurement Rules, Regulations and Contract Standing Orders provides procedures to limit the risk of collusive tendering (bid rigging).

## **6. ENVIRONMENTAL IMPLICATIONS**

- 6.1 Procurement Rules, Regulations and Contract Standing Orders provide for tender evaluation models to include environmental and sustainability policies.

## **7. EQUALITY & DIVERSITY IMPLICATIONS**

- 7.1 None.

## **8. RECOMMENDATIONS**

- 8.1 That the Audit Committee notes the Waivers to the Council's Procurement Rules, Regulations and Contract Standing Orders approved during the financial year 2018/19.

### **For further information contact:**

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### **Background Papers:**

Contract Standing Orders

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## AUDIT COMMITTEE – 31 MAY 2019

### FINAL ACCOUNTS 2018/19 BAD DEBTS WRITE OFF

#### 1. INTRODUCTION

- 1.1 This report informs Members of the total bad debts written off during the financial year 2018/19.
- 1.2 It is Council policy to take all practical steps to recover debts. The Council's accounting systems provide automated recovery procedures for the collection of the debts, followed where applicable, by court action.
- 1.3 This report is prepared in accordance with the Code of Practice for write offs approved by Cabinet.

#### 2. WRITE OFFS

- 2.1 Debts have been written off in the following services;
  - Council Tax
  - National Non Domestic Rates (NNDR)
  - Overpaid Housing Benefit
  - Accounts Receivable
  - Housing and Garage Rents
  - Parking Penalty Charges
  - Stores
- 2.2 Criteria for write off include:
  - Abscond
  - Liquidations and bankruptcies
  - Deceased
  - Small balances
  - Enforcement Agent unable to collect/levy
  - Foreign Vehicles
  - Obsolete items
- 2.3 The total bad debt write off for 2018/19 was £618,169 (2017/18 £704,450). This represents 0.23% of the total income collected.
- 2.4 The total written off by service is detailed in Appendix 1 (A comparison for values written off during 2017/18 is detailed in Appendix 2). The appendix also includes the average value of accounts written off, the write off as a percentage of annual income collected and examples of write offs criteria.

- 2.5 The table below details the service and the value of write ons i.e. write back of credit balances made during the 2018/19 year, together with comparative figures for 2017/18.

<b>CATEGORY OF DEBT</b>	<b>2018/19 £</b>	<b>2017/18 £</b>
COUNCIL TAX	9,049	6,945
NNDR	687	1,788
HOUSING BENEFIT incl. OVERPAID INVOICES	14,969	2,103
ACCOUNTS RECEIVABLE	46	60
HOUSING AND GARAGE RENTS	435	7,389
PARKING PENALTY CHARGES	Nil	Nil
STORES	1,759	Nil

- 2.6 Write ons are credited where debtors have overpaid and they cannot be traced. All reasonable avenues are explored prior to the credit being written back on.

- 2.7 The increase in Housing Benefit write-ons is due to previous write-offs being reversed for recovery via the Housing Benefit Debt Service.

### **3. BAD DEBT PROVISION**

- 3.1 The Council has made allowances for doubtful debts in the accounts based on what it believes to be a prudent but realistic level. For 2018/19, the NFDC provision is £2,429m (£2.447m in 2017/18).

- 3.2 The total provision made for each type of bad debt write off and the total arrears as at 31 March 2019 is also shown in Appendix 1. Members should note, the total provision figures within Appendix 1 include the NFDC provision as outlined above, plus collection fund provisions which relate to other organisations (i.e. HCC).

### **4. AUTHORITY TO APPROVE**

- 4.1 Service Managers have authority to approve write offs up to certain limits and the Council's statutory financial officer has authority to approve write offs of any limit, in accordance with the Code of Practice approved by Cabinet. Details of the approval limits are shown in Appendix 3.

### **5. RECOMMENDATIONS**

- 5.1 That this report be noted.

#### **For Further Information Please Contact:**

Ryan Stevens – Service Manager  
 Revenues and Benefits  
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APPENDIX 1 CATEGORIES OF WRITE OFFS 2018/19								
Category of Debt	Total Write Off £	Number of Accounts	Average value of Account Written Off £	Annual Income / Turnover £	Provision Made 31/3/2019 £	Arrears Balance as at 31/3/2019 £	Write Off as % of Turnover	Reason for Write Off
Council Tax1	242,448	1,315	184	121,305,000	1,161,370	2,902,000	0.2	Abscond, bankruptcy, deceased, no goods on which to levy, other, small balance.
NDR	186,335	78	2,389	66,811,000	245,000	760,000	0.3	Abscond, bankruptcy, no goods on which to levy, other, small balance.
Housing Benefit incl Overpaid Invoices	45,002	182	247	37,228,000	740,020	1,181,000	0.1	Abscond, bankruptcy, collection, deceased, Local Authority/DWP error, small balance.
Accounts Receivable	26,058	70	372	9,428,000	883,160	2,901,000	0.3	Abscond, bankruptcy, small balance, uneconomical to pursue.
Housing and Garage Rents	93,175	159	586	28,646,000	523,000	670,000	0.3	Abscond, bankruptcy, deceased, collection agency unable to collect, individual voluntary agreement/debt relief order, small balance.
Parking Penalty Charges	25,151	425	59	315,289	20,159	121,758.21	8.0	Abscond, bailiff unable to collect/no goods on which to levy, bankruptcy, deceased, foreign vehicle.
<b>Total</b>	<b>618,169</b>	<b>2,229</b>		<b>263,733,289</b>				

APPENDIX 2 CATEGORIES OF WRITE OFFS 2017/18								
Category of Debt	Total Write Off £	Number of Accounts	Average value of Account Written Off £	Annual Income / Turnover £	Provision Made 31/3/2018 £	Arrears Balance as at 31/3/2018 £	Write Off as % of Turnover	Reason for Write Off
Council Tax	144,450	574	252	114,098,000	1,165,090	2,768,000	0.1	Abscond, bankruptcy, debt relief order, deceased, no goods on which to levy, other, small balance.
NNDR	322,393	61	5285	65,951,000	329,000	1,134,000	0.5	Abscond, bankruptcy, no goods on which to levy, other, small balance.
Housing Benefit incl Overpaid Invoices	74,110	270	274	39,646,000	810,760	1,192,000	0.2	Abscond, bankruptcy, debt relief order, collection, deceased, Local Authority/DWP error, small balance.
Accounts Receivable	52,021	140	372	7,624,000	881,860	2,130,000	0.7	Abscond, bankruptcy, deceased, small balance, uneconomical to pursue.
Housing and Garage Rents	81,800	153	535	28,793,000	437,000	639,000	0.3	Abscond, deceased, debt relief order, small balance, unable to collect, uneconomic.
Parking Penalty Charges	28,888	452	64	280,418			10.3	Abscond, bailiff unable to collect/no goods on which to levy, bankruptcy, foreign vehicle.
Stores	788							Picking errors.
<b>Total</b>	<b>704,450</b>	<b>1,650</b>		<b>256,392,418</b>				

SERVICE AREA	SERVICE MANAGER RESPONSIBLE	WRITE OFF / ON CRITERIA	UPPER £ LIMIT PER DEBTOR
Council Tax	Revenues & Benefits	Bankruptcy/Debt relief order Abscond Small Balance (up to £500) Deceased Bailiff unable to collect/no goods on which to levy	£3,500
Business Rates	Revenues & Benefits	Bankruptcy/Liquidation/Indiv vol agreement Abscond Small Balance (up to £500) Deceased Bailiff unable to collect/no goods on which to levy	£3,500
Housing Benefit (including Fraudulent cases)	Revenues & Benefits	Bankruptcy/Debt relief order Abscond Small Balance (up to £500) Deceased LA Error DWP Error Collection Agency unable to collect	£3,500
Housing Rents	Housing – Estates Management	Bankruptcy/Debt relief order Abscond Small Balance (£500) Deceased Collection Agency unable to collect	£3,500
Accounts Receivable	Revenues & Benefits	Bankruptcy/Indiv. Vol. Agreement / Debt Relief Order Abscond Small Balance (up to £500) Deceased Uneconomic to pursue through the court	£1,500
Penalty Charge Notices	Street Scene	Bankruptcy Abscond Deceased Bailiff unable to collect/ no goods on which to levy Foreign Vehicle	£1,500
Garages	Housing – Estates Management	Bankruptcy Abscond Small Balance Deceased	£1,500
Stores	Building Works	Obsolete stock / Damaged stock Picking Error	£1,500
Health and Leisure Centres	Health & Leisure	Small Balance (up to £500) Missing Membership Proofs	£1,500
Estates & Valuations	Legal / Estates	Bankruptcy Abscond Small Balance (up to £500) Deceased	£1,500
All	Section 151 Officer	Any write off/on including; Partial write offs of live accounts, paying accounts, large balances, any other exceptional reason	NO LIMIT

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## AUDIT COMMITTEE – 31 MAY 2019

### FRAUD REPORT

#### 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 for 2018/19.
- 1.2 The Fraud and Compliance Officer is 0.53FTE.

#### 2. FRAUD REFERRALS

- 2.1 In 2018/19 there have been 113 fraud referrals received from DWP relating to Housing Benefit and/or Council Tax Reduction.
- 2.2 There were 39 referrals to the Corporate Fraud and Compliance Officer of which 25 have been completed. Referrals are received via DWP, an e-form, hotline or internally from staff.
- 2.3 Following investigations there has been a total of £36,407.73 in Housing Benefit overpayments and £9,301.89 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.
- 2.4 Highlighting a specific example, following a successful prosecution for Council Tax Reduction fraud, our first prosecution, the claimant was fined £1,500, costs of £3,244 and a victim surcharge of £37.00.
- 2.5 **Fraud Referrals from 2018/19**

Type of referral	No of referrals	Ongoing cases	Closed cases
Living Together	14	7	7
Undeclared Capital	3		3
Undeclared Earnings	6	1	5
Household composition	1		1
Homeseach waiting List	1		1
Right to Buy	3	1	2
Tenancy – sublet/non-occupation	8	3	5
Single Person Discount	1	1	
Council Tax payment	1		1
Internal	1	1	
<b>Total Referrals</b>	<b>39</b>	<b>14</b>	<b>25</b>

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

### 3. POLICY UPDATE

3.1 The following policies have been updated and approved during 2018/19:

- 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. There is no funding from DWP, nor is there a Service Level Agreement, however, there is a Data Sharing Agreement.

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 To date there has been one joint interview under caution. Nationally, there appears to be limited cases of joint investigations and this will be escalated to DWP.

### 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 was submitted in October with the data matches results being received in January 2019.

5.2 The breakdown of data matches is as follows:

Area	No. of matches
Internal (payroll/pension/procurement)	26
Housing Estates (non-residence/deceased/right to buy)	122
Housing Options (waiting list)	164
Revs & Bens (non-residence/entitlement/income)	570
Finance (duplicate creditors)	978

5.3 Meetings with Service Managers have been undertaken to discuss the matches and recording process and to ensure a response. Priority will be given to those matches classified as a “high” risk of fraud.

5.4 There are no timescales for completion and the Corporate Fraud and Compliance Officer will coordinate this and will work with those services affected.

### 6. TRAINING

6.1 During 2018/19 training has been given to Housing Estates. There is also attendance at the Hampshire Fraud Group to keep updated on any changes.



## **7. FRAUD RISK REGISTER**

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

7.2 These will be reviewed every two years.

## **8. PUBLICITY**

8.1 An article in Hometalk has been placed to highlight tenancy fraud. Details of the prosecution was publicised on the councils website and in the Lymington Times.

## **9. FUTURE ACTIVITIES**

9.1 We are due to undertake a review of single person discounts (circa 25,000 accounts) and plan to review staff declarations.

## **10. RECOMMENDATION**

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

**Appendix 1 - Results for 2018/19**

<b>ALLEGATION / INVESTIGATION</b>	<b>OUTCOME</b>	<b>PENALTY</b>
Increased Earnings	HB overpayment of £2,638.00 and CTR non entitlement of £309.49.	Warning letter issued
Undeclared Earnings	HB overpayment of £2,158.09 and CTR non entitlement of £752.15	Warning letter issued
Undeclared earnings	Joint investigation and interview under caution with DWP. HB overpayment of £10,027.67 and CTR non entitlement of £2,349.70	Warning letter issued
Undeclared Capital	Successful Prosecution. Overpayment of Housing Benefit of £21,139.71 and CTR non entitlement of £5,819.86	£375 fine for each offence. £3,244 costs & a £37 victim surcharge.
Undeclared Capital	HB/CTR overpayments created	£70 Civil Penalty
Undeclared Capital	HB overpayment of £444.26 and CTR non entitlement of £70.69	£70 Civil Penalty
Waiting List Criteria	Not offered property and removed from High Priority banding	None
Non-occupation	Tenancy surrendered - 2 bed bungalow returned	None
Non-occupation	After IUC tenant voluntarily gave up tenancy – a 2 bed property	None

**EMT – 20 MAY 2019**  
**AUDIT COMMITTEE – 31 MAY 2019**

## **ANNUAL INTERNAL AUDIT REPORT AND OPINION 2018-19**

### **1. INTRODUCTION**

- 1.1. The purpose of this report is to provide the Audit Committee with the Chief Internal Auditor's opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2019.

### **2. SUMMARY**

- 2.1. In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control to inform the production of the Annual Governance Statement.
- 2.2. The Annual Report for 2018-19 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the adequacy and effectiveness the Council's framework of risk management, control and governance processes and summarises audit work from which that opinion is derived for the year ending 31 March 2019.
- 2.3. The Audit Committee's attention is drawn to the following points:
- Internal audit was compliant with the Public Sector Internal Audit Standards during 2018-19;
  - The revised internal audit plan for 2018-19 has been substantially delivered;
  - The Council's framework of governance, risk management and management control is considered to be 'Adequate' and audit testing has demonstrated controls to be working in practice; and
  - Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible officers.

### **3. FINANCIAL IMPLICATIONS**

- 3.1. The audit plan consisted 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 reflected 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 approve the Annual Internal Audit Report and Opinion for 2018-19.

**For Further Information Please Contact:**

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**Background Papers:**

Internal Audit Plan 18-19

# Annual Internal Audit Report & Opinion

2018 - 19

New Forest District Council



## Southern Internal Audit Partnership

Assurance through excellence  
and innovation

## Contents

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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 organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.’***

The 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 organisation’s objectives.

## 2. Internal Audit Approach

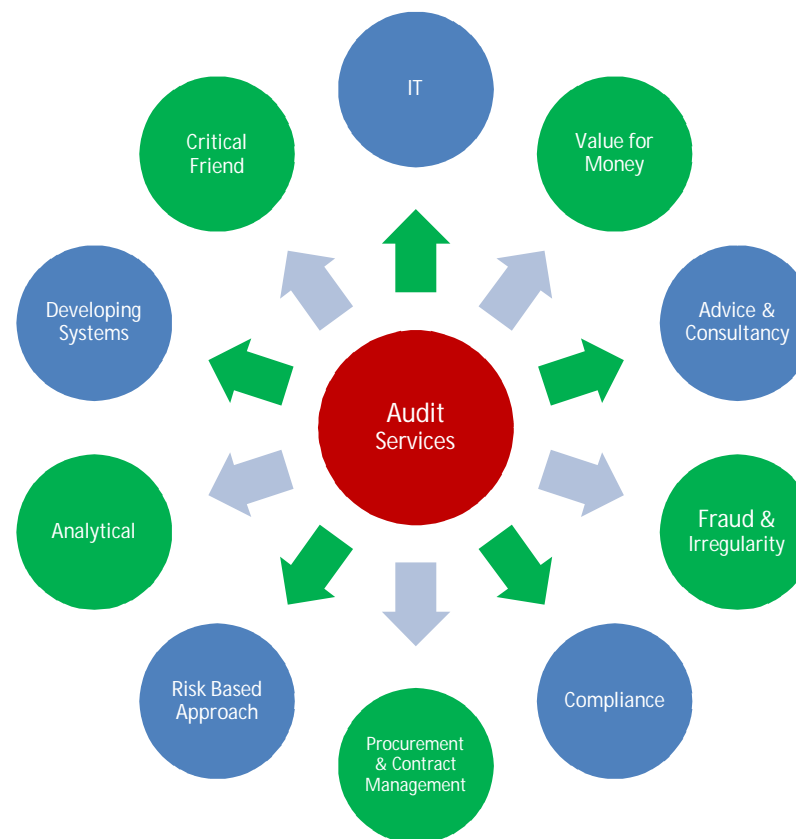
To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Chief Internal Auditor and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisation's success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.





### 3. Internal Audit Opinion

The Deputy Head of the Southern Internal Audit Partnership (SIAP) is the Council's Chief Internal Auditor and is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of New Forest District Council's audit need that has been covered within the period.

#### *Annual Internal Audit Opinion 2018-19*

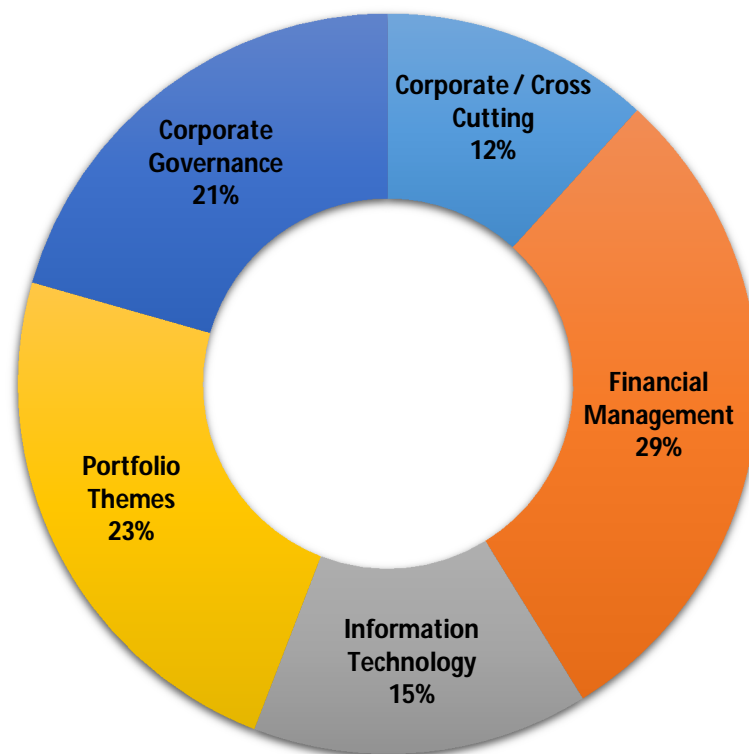
*"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment.*

*In my opinion, New Forest District Council's framework of governance, risk management and control is 'Adequate' and audit testing has demonstrated controls to be working in practice.*

*Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."*

#### 4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed in order to obtain sufficient information and explanation considered necessary to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2018-19 Internal audit plan, approved by the Audit Committee in March 2018, was informed by internal audits own assessment of risk and materiality, in addition to consultation with management, to ensure it aligned to key risks facing the organisation.

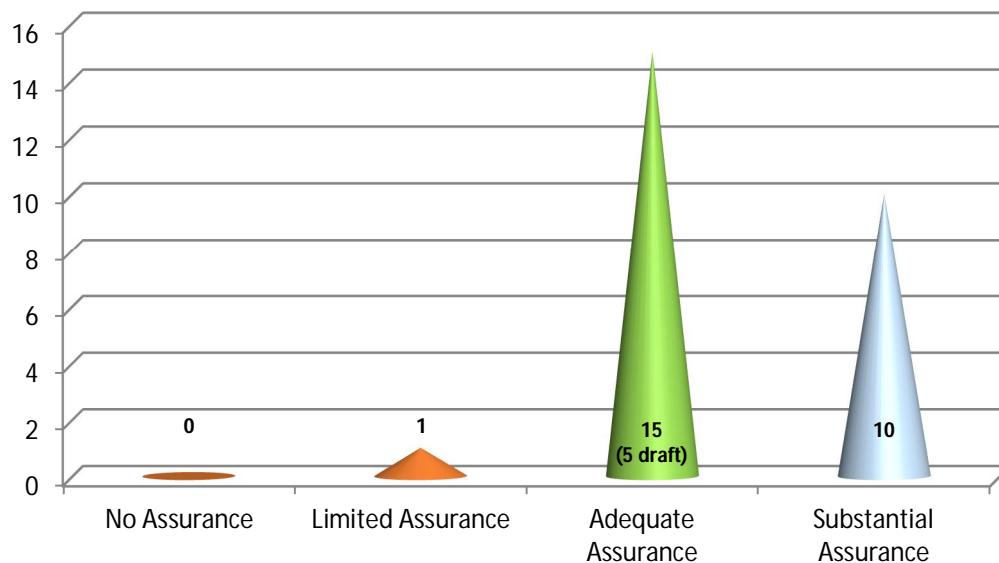
The plan has remained fluid throughout the year to maintain an effective focus and the revised plan was presented to and agreed by the Audit Committee in October 2018.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 34 reviews during the year ending 31 March 2019.

The revised 2018-19 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed and agreed for 5 reviews which have been considered when forming the 2018-19 annual audit opinion, although final reports have yet to be issued;
- Fieldwork remains in progress with the Housing Asset Management review therefore the outcome of this audit will be considered when forming the 2019-20 annual audit opinion.

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined 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(es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

**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

\*7 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, advice, assurance mapping, a follow-up of previous audit findings and resulting action or concluded with a position statement.

## 5. Key Observations

In general, internal audit work found there to be sound control environments in place across the majority of review areas that were working effectively to support the delivery of corporate objectives. There were no 'No Assurance' opinions issued during the year. Only the Environmental Services – Trade Waste audit concluded with a 'Limited' assurance opinion as outlined below:-

**Environmental Services – Trade Waste.** Following both management and service administration staffing changes, the new Service Manager identified areas of weakness and requested Internal Audit complete an end to end process review, with a specific focus on the costing elements, to help inform a Service review and the development of a new Service Plan.

There were known issues with the accuracy of disposal data which informs the charges paid to Hampshire County Council. The Service Manager is keen to address the issue and had initiated a sound sampling process/methodology to enhance data accuracy (e.g. average weight of bags/bins) which was still in progress at the time of the review. The accuracy of data and practice of co-collection with domestic waste had resulted in the costs of the service not being fully understood. Although uplifted annually, charges had not been reviewed to ensure they covered costs therefore it was not clear whether the service was making a surplus or loss.

The customer database does not link to other systems, such as finance and stock control, and, as a consequence, some issues were identified with invoicing, debtors, and the availability and accuracy of management information. Trade Waste customers are not issued with contracts or any terms and conditions and as such, often start, change or cease services without notice and at a potential cost to the Council. The review found some sales of trade waste sacks to unregistered traders.

Following the Service review and internal audit, a new Service Plan was developed. An overview of the Service review, the internal audit and progress in implementing the resulting actions was presented to the Audit Committee in March 2019. Internal Audit will continue to track the progress with implementing the agreed actions and will include updates within the 2019-20 Internal Audit Progress Reports.

## 6. Anti Fraud and Corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption.

The Council employs a Corporate Fraud Officer who is responsible for providing both reactive fraud and irregularity investigations and proactive fraud work. The Council also have access to additional SIAP resources to provide advice, support and supplement the work of the Corporate Fraud Officer if required. The Council's Fraud and Compliance Officer provides a biannual update to the Audit Committee on activities to prevent, detect and investigate suspected fraud and SIAP monitor the outcomes of this work.

## 7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within 'the Standards'.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

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

In considering all sources of evidence the external assessment team concluded:

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

**There are no instances across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.”**

In accordance with PSIAS, annual self assessments have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

## **8. Disclosure of Non-Conformance**

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that

**‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’**

There are no disclosures of Non-Conformance to report.

## 9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2018-19 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

## 10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators			
Aspect of service	Target		2018-19 Actual
Revised plan delivered (to draft report stage)	95%	✓	97 %
Positive customer responses to quality appraisal questionnaire *	95%	✓	99 %
Compliant with the Public Sector Internal Audit Standards	Yes	✓	Yes

\*Customer satisfaction has been assessed through response to questionnaires issued to a wide range of stakeholders including Members, senior officers and key contacts.

## 11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout New Forest District Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Antony Harvey  
Deputy Head of Partnership (SIAP)  
May 2019



EMT – 20 MAY 2019  
 AUDIT COMMITTEE – 31 MAY 2019

## CODE OF GOOD GOVERNANCE REVIEW ANNUAL REPORT OF THE MONITORING OFFICER AND CHIEF FINANCE OFFICER 2018/19

### 1. INTRODUCTION

- 1.1 In April 2016 CIPFA/SOLACE published a new Code – “Delivering Good Governance in Local Government Framework 2016” with the key focus on governance processes and the achievement of sustainable social economic and environmental outcomes. This Council approved the revised Code in April 2017.
- 1.2 The Monitoring Officer and the Chief Finance Officer are responsible for annually reviewing the Council’s compliance against the adopted Code and reporting their findings and recommended actions. This review provides one of the assurance strands in support of the Annual Governance Statement, required under the Account and Audit Regulations 2015.
- 1.3 This report brings together the outcomes of the review for 2018/19.

### 2. REVIEW OF COMPLIANCE

- 2.1 The good governance framework centres on the following 7 core principles.

<b>A</b>	Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
<b>B</b>	Ensuring openness and comprehensive stakeholder engagement.
<b>C</b>	Defining outcomes in terms of sustainable economic, social and environmental benefits.
<b>D</b>	Determining how to best optimize the achievement of intended outcomes
<b>E</b>	Developing the entity’s capacity, including the capability of its leadership and the individuals within it.
<b>F</b>	Managing risks and performance through robust internal control and strong public financial management.
<b>G</b>	Implementing good practices in transparency, reporting and audit to deliver effective accountability.

- 2.2 The Council’s compliance with the Code has been assessed, and a summary of the findings is detailed in **Appendix 1**.
- 2.3 This assessment also considered progress made against the prior year, 2017/18 action plan, which was reported to Audit Committee in June 2018. This previous year’s action plan and reported progress can be found in **Appendix 2**.
- 2.4 The main areas identified for further improvement during this review are summarised below with detailed actions recommended in **Appendix 3**.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 Although there are no direct financial implications arising from this report, good governance arrangements provide assurance in respect of financial management.

### **4. ENVIRONMENTAL MATTERS**

- 4.1 There are no environmental matters arising directly from this report.

### **5. CRIME AND DISORDER IMPLICATIONS**

- 5.1 Ethical behaviour in terms of avoiding fraud and corruption is an intrinsic element of good corporate governance and this report provides assurance in that regard.

### **6. EQUALITY AND DIVERSITY IMPLICATIONS**

- 6.1 There are no equality and diversity implications arising directly from this report.

### **7. CONCLUSIONS**

- 7.1 It is the view of the Monitoring Officer and Chief Finance Officer that the Council is able to have confidence in the effectiveness of its governance arrangements. This is illustrated by the few and relatively minor areas identified in **Appendix 3** for review.

### **8. RECOMMENDATIONS**

- 8.1 The Audit Committee notes the assessment carried out by the Monitoring Officer and the Chief Finance Officer and the actions set out in **Appendix 3**.

**For Further Information Please Contact:**

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**Background Papers:**

Local Code of Good Governance-  
The New Framework March 2017

## Summary of the Council's compliance with its adopted Code of Good Governance for period 2018/19

Principle	Assessment of Monitoring Officer and Chief Finance Officer and Evidence
A. How does the organisation behave with integrity, demonstrating strong commitment to ethical values, and respect the rule of law?	Detailed and up to date Constitution on decision making including expected standards of conduct of both Members and officers. Good emphasis on Member Induction and Member Development generally. Sound rules on Procurement procedures and Contract Standing Orders which have been recently reviewed to ensure they are fit for purpose. New Procurement Strategy 2018 - <a href="http://www.newforest.gov.uk/article/1070/Procurement-Strategy">http://www.newforest.gov.uk/article/1070/Procurement-Strategy</a> . Comprehensive Scheme of Delegations and transparent decision making processes. Robust financial procedures ensuring probity in decision making. Protocols in place for statutory Chief Officers in carrying out their functions. Member and Officer Codes of Conduct in place, and robust complaints procedures. Register of Gifts and Hospitality for Members and Officers. Up to date whistleblowing policy, equality & diversity and data protection training modules in place. ICT Security Policy reviewed and updated in 2018. Needs to keep abreast of emerging cyber security risks. Up to date Financial Regulations governing financial framework.
B. How does the organisation ensure openness and comprehensive stakeholder engagement?	Detailed Constitution on how the Council makes decisions including rights of stakeholders. Well established overview and scrutiny panels open to the public. Council's website includes published calendar of meetings, including agendas, minutes and key decisions of both members and officers; good FOI policies in place and sound system for dealing with requests for information and good emphasis on compliance with deadlines. Draft Local Plan approved (involved significant public consultation); robust Transparency Code; Annual Financial Report and Annual Governance Statement published. Good positive use of Social Media for Council business purposes i.e. Facebook; H&L, Annual Member Survey, Mystery Shopper; Annual User Survey. Engagement with relevant charities providing training on universal credit. Work with libraries to assist with the digital champion programme and welfare reforms continues. Hometalk magazine produced twice a year ensuring good liaison with Council tenants. Well established Tenants' Involvement Group to discuss housing matters. Multi-Agency Forum for homelessness established bringing together community groups and other public sector groups to ensure wider and better engagement on the key issue of homelessness. It would be beneficial to have a Partnership Register with Terms of Reference along with an identification of risks including an assessment of the value of partnerships.

<p>C. How does the organisation define outcomes in terms of sustainable economic, social and environmental benefits?</p>	<p>Good standard of Committee reports; Corporate Plan; Corporate Framework; Draft Local Plan 2018; risk management strategy; Annual Performance and Budget Outturn report; Procurement rules, Regulations and Contract Standing Orders; good compliance with Environmental Information Regulations (EIR); Medium Term Financial Plan; Capital Programme – all add to the achievement of positive economic, social and environmental benefit. Significant work ongoing in Planning to ensure schemes enhance the environment. The Economic Development Section supports sustainable development and works with the local community to facilitate new businesses with upskilling and supporting measure to improve the skills of the existing workforce.</p>
<p>D. How does the organisation determine how to best optimize the achievement of intended outcomes</p>	<p>Evidence of well thought out processes involving key officers including EMT at correct stages of new projects/initiatives. Well established reporting to Cabinet, Audit Committee and Overview and Scrutiny Committees in place with stakeholder engagement also achieved through bespoke Task and Finish Groups. Clear decision making protocols in place. Corporate Plan sets out the overall Council strategy and key priorities. Publication of annual performance reporting including key performance indicators. Regular Medium Term Financial Planning sets overall context of financial challenges. Risk Register sets overall context for risk management. The Corporate Framework, supported by Overview and Scrutiny Panels, articulates how the Council's priorities are to be delivered through strategies that will help support that delivery.</p>
<p>E. How does the organisation develop the entity's capacity, including the capability of its leadership and the individuals within it?</p>	<p>Cabinet of 8 Members, each with distinct areas of responsibilities. Good use of Task and Finish Groups to utilise 'Back Bencher' Members on bespoke projects/issues; detailed Constitution; good Member Induction and Member Development Programme; Annual Workforce report; Good emphasis on development of individuals generally. Well established annual appraisal process. Good emphasis on secondments and apprenticeship opportunities; staff performance development review; continuing professional development programmes; benchmarking; training programmes in existence including Health &amp; Safety, Fire Safety, Safeguarding, Equalities, Social Media; Staff 1:1s; Periodic staff surveys In recent years, reviews of senior management and structures have brought about positive changes to meet the challenges of the future with emphasis remaining on the delivery of quality services to the community. Regular EMT site visits and Chief Executive communications.</p>

<p>F. How does the organisation manage risks and performance through robust internal control and strong public financial management?</p>	<p>Detailed and up to date Constitution. Well established reporting to Audit Committee and Overview and Scrutiny Committees in place with good emphasis on member induction and input. Risk Management Strategy in place, as well as Strategic and Service Risk Registers. Strong emergency response plan and suitable training of key officers on emergency planning scenarios. Financial Regulations have recently undergone extensive review to ensure they are suitable and fit-for-purpose. Robust financial procedures ensuring probity in making decisions. Detailed Medium Term Financial Planning and Financial Monitoring reporting throughout the year. Suitable level of expertise within the finance and audit functions. External Audit of Annual Financial Report including value for money opinion. Risk based internal auditing service/planning, with progress regularly reviewed by the Audit Committee. Key strategies and policies in place; Anti-Fraud and Corruption Strategy; Information Governance Policy; Information Asset Register; ICT Security Policy; GDPR Action Plan. Further work required on Business Continuity to minimise risks of non-delivery in terms of key services.</p>
<p>G. How does the organisation implement good practices in transparency, reporting and audit to deliver effective accountability?</p>	<p>Well established reporting to Cabinet, Audit Committee and Overview and Scrutiny Committees. Council website includes published calendar of meetings, including agendas, minutes and key decisions of both members and officers. Transparency pages on website gives information on contracts, payments to suppliers, access to information and other useful information. Clear decision making protocols and detailed Scheme of Delegation so that accountability for decisions is clear. Financial responsibility and accountability understood by senior management and members alike. Auditors prepare and present independent Annual Opinion Report, and regular updates on audit plan progress. Sound and suitably resourced internal audit service. Detailed Medium Term Financial Planning and Financial Monitoring reporting throughout the year. Regular financial updates provided by Finance Service to accountable officers. Peer review undertaken during 2017 provided positive feedback along with recommended actions. These have been considered and actioned appropriately. Annual Governance Statement reviewed by Audit Committee and external audit. New approach to the provision of Internal Audit through the Southern Internal Audit Partnership (hosted by Hampshire County Council) going very well.</p>

## Follow up to Actions Arising from the Local Code of Good Governance Review 2018/19

Topic	Action	Responsible Officer	Deadline	Follow up status
Business Continuity	A stronger corporate wide approach is required	Executive Heads with Service Managers	March 2019	Further work required to ensure corporate wide approach to Business Continuity. Will form part of Action Plan going forward.
Review and develop ICT Security Policy to include emerging Cyber Security Risk	All organisations worldwide face increasing cyber related threats. ICT Policy to be reviewed to keep abreast of new threats	Rob Beere/Executive Head	March 2019	A revised ICT Policy was reviewed and updated in June 2018. This needs to be kept under constant review in light of enhanced cyber threats. Will form part of Action Plan going forward.
Partnership Register	An accurate and up to date Partnership register is required to ensure fit for purpose terms of reference, risks of collaborative working and the added value of partnerships all of which should be suitably documented	Beccy Drummond/Executive Heads	March 2019	In progress and will form part of Action Plan going forward.

## Actions arising from the Good Governance Review 2018/19

Topic	Action	Responsible Officer	Deadline
Business Continuity Arrangements	To review Business Continuity arrangements	EMT and Service Manager	March 2020
ICT Security Policy/ Cyber Risk	Ongoing review of the ICT Security Policy to include emerging Cyber Security risks	ICT Security Manager and EMT	March 2020
PCI Accreditation	To agree the Council's strategy with regards to achieving the necessary accreditation	Head of Finance, Service Manager ICT, ICT Security Manager	March 2020
Partnerships	To review partnership arrangements to:- develop terms of reference, identify risks in collaborative working, ensure added value of partnership working is explicit, produce accurate and up to date Partnerships Register	Executive Head – Resources/EMT	March 2020

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EMT – 20 MAY 2019  
AUDIT COMMITTEE – 31 MAY 2019

## DRAFT ANNUAL GOVERNANCE STATEMENT – 2018/19

### 1. INTRODUCTION

- 1.1 As prescribed by the Account and Audit Regulations 2015, regulation 13, the Council is required to produce an Annual Governance Statement (AGS) following an assessment of its governance framework.
- 1.2 The Leader of the Council and the Head of Paid Services (Chief Executive) are required to sign the AGS and be satisfied that the document is supported by reliable evidence. It will be published with the Annual Financial Report and provided to the external Auditor for review.

### 2. THE ANNUAL GOVERNANCE STATEMENT (AGS)

- 2.1 The Statement seeks to demonstrate that the Council's business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. There is a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which the Council's functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 2.2 In compiling the Statement, the Council has regard to its internal control arrangements including the outcomes of the annual Good Governance Review, risk registers, any external auditor reports and other management arrangements. It further considers the process applied in maintaining and reviewing the governance framework including the authority itself, the executive, audit/scrutiny committees and other assurance mechanisms.
- 2.3 Whilst the Council maintains high standards of governance and internal control, some areas for improvement have been identified by the review process mentioned above. These have been reported in the AGS. An Action Plan has been developed and this will be monitored by the Council's Executive Management Team and Audit Committee.
- 2.4 Whilst the AGS covers the period 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019, the document remains open for update until it is approved at the end of July 2019 and can make reference to any significant matters that arise.
- 2.5 The statement has been reviewed by the Executive Management team. The draft AGS for 2018/19 is attached in **Appendix 1**.

### 3. FINANCIAL IMPLICATIONS

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

### 4. EQUALITIES & DIVERSITY AND ENVIRONMENTAL MATTERS

- 4.1 There are no equalities & diversity or environmental matters associated with this report.

## 5. CRIME & DISORDER IMPLICATIONS

5.1 There are no crime and disorder issues arising directly from this report.

## 6. CONCLUSIONS

6.1 The Annual Governance Statement reports that the Council has sound levels of internal control and good governance arrangements.

6.2 The statement does identify some areas for improvement and these will be managed by the Council's Executive Management Team.

## 7. RECOMMENDATIONS

7.1 That the Audit Committee approves the draft Annual Governance Statement for the Financial Year ended 31<sup>st</sup> March 2019 as reported in **Appendix 1**.

### *For Further Information Contact*

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### *Background Papers*

Delivering Good Governance in Local  
Government Framework 2016

**THE ANNUAL GOVERNANCE STATEMENT  
NEW FOREST DISTRICT COUNCIL  
2018/19**

### **1. Scope of Responsibility**

New Forest District Council is responsible for ensuring that its business is conducted in accordance with the law, proper standards are adhered to and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to best value. In discharging this overall responsibility New Forest District Council is required to have in place proper arrangements for the governance of the Council's affairs, facilitating the effective exercise of its functions and arrangements for the management of risk.

New Forest District Council has approved and adopted a Code of Good Governance, which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". This statement explains how New Forest District Council has complied with the Code and also meets the requirements of regulation 13 of the Accounts & Audit Regulations 2015 in relation to the publication of a Statement of Corporate Governance.

### **2. The Purpose of the Governance Framework**

The governance framework comprises systems and processes, as well as culture and values, by which the authority is directed and controlled including its activities, through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure in the delivery of policies, achieving aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify, prioritise and manage the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks materialising and the resultant impact should they be realised.

### **3. The Governance Framework**

The good governance framework centres on the following 7 core principles:

<b>A</b>	Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
<b>B</b>	Ensuring openness and comprehensive stakeholder engagement.
<b>C</b>	Defining outcomes in terms of sustainable economic, social and environmental benefits.
<b>D</b>	Determining the interventions necessary to optimize the achievement of the intended outcomes.
<b>E</b>	Developing the entity's capacity, including the capability of its leadership and the individuals within it.
<b>F</b>	Managing risks and performance through robust internal control and strong public financial management.
<b>G</b>	Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The Council's Corporate Plan "Delivering for our Communities", sets out the Council's overarching vision, values and strategy and sets out what the Council aims to achieve for the period 2016 - 2020. The Council aims to deliver good quality services that provide value for money and which are aligned to the needs and priorities of the local community.

The Council is concerned to ensure that quality of service delivery is maintained at a time of financial constraint and uses a variety of mechanisms to assess this. This helps inform future service delivery.

The Council continually revises its Medium Term forecast according to latest information received around likely funding levels and expenditure increases. The Council's current strong financial position and on-going efficiencies programme (including the development of new income generation initiatives) will help protect front-line service delivery and is underpinned by the healthy General Fund reserve. This will enable the Council to respond to changes in a meaningful way.

The Council has also developed a number of successful joint or collaborative working arrangements with other public partners. This has continued into 2018/19 and includes arrangements with Hampshire County Council (in respect of Audit and Treasury functions) and a joint Information Office 'The Ringwood Gateway' between Ringwood Town Council, HCC and the District Council.

The Council's Constitution sets out how the Council operates, including the roles, responsibilities and relationships between Council, the Executive (Cabinet), Audit Committee and other Committees such as Overview and Scrutiny Panels and officers in respect of policy and decision-making processes. There is a comprehensive Scheme of Delegations to officers to ensure timely decision-making. The Constitution also sets out details on Codes of Conduct and key policies such as Financial Regulations and Contract Standing Orders as to Contracts. It is important that the Council operates efficiently and transparently and is accountable to the local people.

The Constitution is reviewed and updated regularly.

The Risk Management Framework is in place to ensure that risks to the Council in achieving its strategic objectives, both at a corporate and service level, are more consciously identified, assessed and managed. It aligns risk with existing arrangements, in particular the performance management framework with an assessment of risk forming part of the Service Planning processes.

In 2016 CIPFA/SOLACE carried out a review of the corporate governance framework to ensure that it still reflects the environment within which Councils are operating and to also reflect the International framework which had been developed by CIPFA and the International Federation of Accountants (IFAC) in 2014.

As a result of their review in April 2016, CIPFA/SOLACE published a new framework document "Delivering Good Governance in Local Government Framework 2016 Edition" with the key focus of governance processes and structures concentrating on the attainment of sustainable economic, social and environmental outcomes. The Council approved the revised code in April 2017 which follows the recommended text in the CIPFA/SOLACE framework.

#### **4. Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior statutory officers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Council has always maintained a strong internal control environment and sees risk management as an integral part of everyday management. It has long established principles on the way its business is conducted enabling good governance and control of risk. Factors that influence the control environment include; integrity, ethics, operating style and the way management and members assign responsibility and authority.

A summary of the review activities undertaken during 2018/19 are included below:

1. A number of Council policies were reviewed or new Plans/Policies implemented including:
  - Approval of the draft Local Plan;
  - Anti-Money Laundering policy updated;
  - Whistleblowing policy updated;
  - ICT Security policy updated;
  - New Housing Strategy,
  - New Homelessness and Rough Sleeping Strategy;
  - New Allocations Policy (covering how the Council allocates social housing in the District) and
  - The Council's Publication Scheme updated
2. An addition has been made to the Council's Executive Management Team with the appointment of a Chief Planning Officer recognising the importance of planning.
3. The Council's arrangements for financial management and reporting are sound and are well documented. Proposals for expenditure and income are supported by a business case. These are scrutinised initially by EMT and the Service Portfolio Holder prior to inclusion as a formal bid to Cabinet and the Council. The financial planning process also includes a review of proposals by the relevant Overview and Scrutiny Panels, before final budgetary proposals and the council tax levels are considered and approved by Council each year.
4. Financial monitoring is achieved by regular budgetary control reports to nominated budget holders, Executive Management Team, the relevant Portfolio Holder, and Cabinet. All elected Members have access to Cabinet Agendas and the financial reports; a process is in place to enable members to request additional, more detailed information and question any financial issues. Strong Overview and Scrutiny arrangements in place with an annual report of work carried out presented to Council.
5. In line with the continuous improvement culture of the Council, it is recognised that all Members and Officers of the Council must have the necessary skills, knowledge and capacity to discharge their responsibilities effectively and therefore significant emphasis is placed on continuous improvement and development.
6. The responsibility of S151 functions (Chief Financial Officer) sits with the Head of Finance who undertakes that statutory role. The Executive Head of Governance and Regulation is the Monitoring Officer, which is also a statutory role. All committee reports are reviewed by members of the Executive Management Team, as well as being provided to the Executive Head of Governance and Regulation (who is also the Council's Solicitor), prior to any decisions being made. This safeguards the Council to ensure that decisions are taken lawfully and that risks are properly considered.
7. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). A review of the Council's Financial Regulations was completed during 2017/18 with the new regulations presented to and endorsed by the Audit Committee. The new regulations were implemented in during April 2018, following approval by full Council.

8. The Performance Management framework ensures strategic monitoring with a focus on organisational and service based indicators reflecting the aims and objectives of the Corporate Plan. Performance indicators are reviewed during the year.
9. The Audit Committee meets regularly and training is available to all members to ensure they are clear in their responsibilities in providing an independent assurance to the Council in relation to the effectiveness of the Council's internal control environment, in accordance with Regulation 6 of the Accounts and Audit (England) Regulations 2015.
10. The Audit Committee considered the Council's Risk Management Framework during 2018/19, and endorsed the Council's approach to risk management.
11. Internal Audit forms part of the internal control framework. It is a mandatory function whose primary aim is to ensure that the Chief Financial Officer's responsibilities, to maintain proper control over the Council's financial affairs, as defined by Section 151 of the Local Government Act 1972, are fully met. The Audit Committee has reviewed and approved the risk based audit plan and progress reports against the audit plan throughout the year. This risk based audit plan was also approved by the Section 151 Officer. The Committee has also received reports and updates from the External Auditor.
12. The Internal Audit function is provided by the Southern Internal Audit Partnership (operated by Hampshire County Council) and accords with the Public Sector Internal Audit Standards. Internal Auditors are trained and have acted independently, objectively and ethically at all times. The Internal Audit Charter was approved during the year.
13. The Principal Auditor's annual opinion report, concluded that whilst Internal Audit are unable to give absolute assurance, the results of the reviews completed during the year have resulted in an overall opinion that:
  - sufficient assurance work has been carried out to allow a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment
  - New Forest District Council's framework of governance, risk management and control is 'Adequate' and audit testing has demonstrated controls to be working in practice
  - where weaknesses have been identified through internal audit review, Internal Audit has worked with the Council's management to agree appropriate corrective actions and a timescale for improvement.
14. Ernst & Young acts as the Council's independent external auditor. The Section 151 Officer and Chair of Audit Committee have responded openly to the External Auditor under the requirements of the International Auditing Standards.
15. During the year, a Service Manager raised a concern with the Head of Finance about the 'procure to pay' workflow operated by the Council in one particular service area, which instigated an immediate review of the process culminating in changes being implemented to improve procedures and minimize any recurring risk.
16. All organisations, worldwide face increasing cyber related threats. The Council maintains sound standards and continually reviews opportunities to further strengthen these. The Council is a member of the Cyber security Information Sharing Partnership (CISP) and has signed up the South East Government Warning, Advisory and Reposting Point (providing information, knowledge and alerts on threat and incidents. ICT also reviewed the ICT Security Policy during 2018/19.

17. Internal Audit has reported an 'Adequate' opinion on the overall control environment. One limited assurance audit opinion was given, and monitoring of progress against the recommendations of this audit will be conducted during 2019/20. The following audit areas have previously received high priority recommendations that have not been resolved promptly:

- Payment Card Industry Data Security Standard Accreditation
- Business Continuity - whilst some Services have a Business Continuity plan a stronger Corporate approach is required.

18. The Council will need to develop an accurate and up to date Partnership Register to ensure the terms of reference, the risks of collaborative working and the added value of partnership working is reviewed and suitably documented.

### 5. Significant Governance Issues

Whilst there have been a number of improvements made throughout the year, the Council constantly strives for continuous improvement. The following significant areas will be included in the action plan:

1. Implementation of uncompleted high priority audit recommendations (as per point 17 within section 4)
2. Review and develop the ICT Security Policy to include emerging Cyber Security risks

### 6. Certification

To the best of our knowledge, governance arrangements, as defined above, have been in place at New Forest District Council for the year ended 31<sup>st</sup> March 2019 and up to the date of approval of the annual report and statement of accounts.

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

*Signed:* .....

**Leader of the Council**

*Signed:* .....

**Chief Executive**

*Date:* .....

*Date:* .....

**Annual Governance Statement Action Plan for 2019/20**

Business Continuity Arrangements	To review Business Continuity arrangements	EMT/Service Managers	March 2020
PCI Accreditation	To agree the Council's strategy with regards to achieving the necessary accreditation	Head of Finance, Service Manager ICT, ICT Security Manager	March 2020
ICT Security Policy/ Cyber Risk	Keep under review the ICT Security Policy to include emerging Cyber Security risks	ICT Security Manager/EMT	March 2020
Partnerships	To review partnership arrangements to:- develop terms of reference, identify risks in collaborative working, ensure added value of partnership working is explicit, produce accurate and up to date Partnerships Register	Executive Head – Resources/EMT	March 2020



## Audit Committee Work Plan 2019/20

<b>DATE</b>	<b>WORK / REPORTS</b>
26 July 2019	Audit Results Report 2018/19 Annual Governance Statement 2018/19 Annual Financial Report 2018/19
25 October 2019	Internal Audit Progress Report 2019/20 Annual Audit Letter 2018/19 Treasury Management Mid Year Report
24 January 2020	Internal Audit Progress Report 2019/20 Audit Plan 2019/20 Treasury Management Strategy Risk Management
27 March 2020	Internal Audit Progress Report 2019/20 Internal Audit Charter 2020/21 Internal Audit Plan 2020/21

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