

NOTICE OF MEETING

Meeting: AUDIT COMMITTEE

Date and Time: FRIDAY, 2 JULY 2021, AT 9.30 AM*

Place: COUNCIL CHAMBER - APPLETREE COURT, BEAULIEU ROAD, LYNDHURST, SO43 7PA

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PUBLIC PARTICIPATION:

Members of the public may listen to this meeting live on the Council's website at the following link:-

<https://democracy.newforest.gov.uk/ieListDocuments.aspx?CId=200&MId=7344&Ver=4>

*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 Audit 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 no later than 12.00 noon on TUESDAY 29 JUNE 2021.

Bob Jackson
Chief Executive

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

AGENDA

Apologies

Apologies were received from Councillors E Lane, J Ward, H Brand and J Davies.

1. MINUTES

To confirm the minutes of the meetings held on 23 October 2020, 29 January 2021 and 26 March 2021 as a correct record.

2. DECLARATIONS OF INTEREST

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

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

3. PUBLIC PARTICIPATION

To note any issues raised during the public participation period.

4. EXCLUSION OF THE PUBLIC AND PRESS

At the conclusion of this part of the Agenda, the Chairman will move the following resolution:-

"That, under Section 100(A)(4) of the Local Government Act 1972, the public and the Press be excluded from the meeting for the following item(s) of business on the grounds that it/they involve(s) the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act and the public interest in maintaining the exception outweighs the public interest in disclosing it."

Description of exempt information:- Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Part II - Private Session

Members are reminded that reports and information relating to this session are not for publication and should be treated as **strictly confidential**.

5. REVIEW OF INFORMATION GOVERNANCE ARRANGEMENTS (CONFIDENTIAL REPORT) (Pages 5 - 12)

To receive a confidential report on an information governance review.

The meeting will resume in public session

6. TREASURY MANAGEMENT OUT-TURN REPORT 2021 (Pages 13 - 26)

To consider the Treasury Management Out-Turn Report 2021.

7. FINAL ACCOUNTS 2020/21 BAD DEBTS WRITE OFF (Pages 27 - 34)

To receive report for Final Accounts Bad Debts Write-off.

8. PROCUREMENT RULES, REGULATIONS & CONTRACT STANDING ORDERS - WAIVERS 2020/21 (Pages 35 - 38)

To receive a report for Procurement Waivers 2020/21.

9. FRAUD - ANNUAL REPORT 2020/21 (Pages 39 - 44)

- To receive a Fraud Report 2020/21.
- 10. ANNUAL INTERNAL AUDIT REPORT AND OPINION 2020-21** (Pages 45 - 60)
- To receive the Internal Audit Report and Opinion Report 2020/21.
- 11. CODE OF GOOD GOVERNANCE REVIEW** (Pages 61 - 68)
- To receive report on the Local Code of Good Governance Review.
- 12. DRAFT ANNUAL GOVERNANCE STATEMENT 2021** (Pages 69 - 78)
- To consider the Draft Annual Governance Statement 2021.
- 13. DRAFT ANNUAL FINANCIAL REPORT 2020 / 2021** (Pages 79 - 92)
- To consider the Draft Annual Financial Report 2021.
- 14. EXTERNAL AUDIT PLAN 2021** (Pages 93 - 134)
- To consider the External Audit Plan 2021.
- 15. AUDIT COMMITTEE WORK PLAN** (Pages 135 - 136)
- To note the Audit Committee's Work Plan.
- 16. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT**

To:	Councillors:	Councillors:
	Alan O'Sullivan (Chairman)	Jack Davies
	Emma Lane (Vice-Chairman)	Martyn Levitt
	Alan Alvey	Ann Sevier
	Hilary Brand	John Ward

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Agenda Item 5

Not for Publication by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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AUDIT COMMITTEE 2 JULY 2021

TREASURY MANAGEMENT ANNUAL OUTTURN REPORT 2020/21

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 Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2020/21.

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 and provides an update on the performance of the treasury management function during 2020/21.
- 2.2. The Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2021. 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 2020/21, 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 2020/21, 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.

- 2.7. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council in February 2021.

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 2020/21.

Economic commentary

- 3.2. The coronavirus pandemic dominated 2020/21, resulting in significant levels of government borrowing and expenditure to support the economy, with the UK also agreeing a Brexit trade deal within the period.
- 3.3. The Bank of England (BoE) held Bank Rate at 0.1% throughout the year and extended its Quantitative Easing programme by £150bn to £895bn in November 2020. The Bank expects Gross Domestic Product (GDP) to remain low in the near-term but believes that the easing of restrictions is likely to lead to a strong recovery in growth later in 2021, with inflation forecast to increase in the near-term. The economic outlook has improved but downside risks remain, such as a further increase in unemployment when the furlough scheme ends.
- 3.4. Inflation remained low during 2020/21, with the annual headline rate of UK Consumer Price Inflation (CPI) rising to 0.7% year-on-year in March 2021, below expectations and below the BoE's 2% target. Unemployment was higher for the three months to March 2021 than for the same period the previous year, while periods of GDP contractions and growth over the year largely mirrored the tightening and easing of restrictions, creating some significant quarterly swings.

Financial markets

- 3.5. Monetary and fiscal stimulus helped provide support for equity markets which rose over the period. In the UK, the FTSE indices performed reasonably well during the period to November 2020 before being buoyed in December by both the vaccine approval and Brexit deal.
- 3.6. Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased

uncertainty, pushing yields higher more quickly than had been anticipated.

Credit review

- 3.7. After spiking in March 2020, credit default swap spreads subsequently declined to broadly pre-pandemic levels. Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks.
- 3.8. Moody's downgraded the UK sovereign rating to Aa3 with a stable outlook during the period and this change had an impact on a number of other UK institutions, banks and local government.
- 3.9. The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the pandemic and the effects of lockdowns and restrictions. This uncertainty means the Council's treasury management advisors, Arlingclose, continue to recommend maximum durations of 35 days for unsecured investments with banks and building societies on their list of recommended counterparties.

4. LOCAL CONTEXT

- 4.1. At 31 March 2021 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £141.9m, while usable reserves and working capital which are the underlying resources available for investment were £49.9m (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.

Table 1: Capital Financing Summary

	31/03/20 Balance £m	Movement £m	31/03/21 Balance £m
General Fund CFR	7.8	1.8	9.6
Housing Revenue Account CFR	1.9	4.1	6.0
HRA Settlement	130.4	(4.1)	126.3
Total CFR	140.1	1.8	141.9
Financed By:			
External Borrowing	131.2	(4.3)	126.9
Internal Borrowing	8.9	6.1	15.0
Total Borrowing	140.1	1.8	141.9

- 4.2. The General Fund CFR (and so internal borrowing) has increased as resources have been required to finance direct property investment during 2020/21, albeit mitigated in part through the application of Minimum Revenue Provision (MRP). The Housing Revenue Account (HRA) CFR has increased as internal borrowing has been used to finance new dwellings purchased pursuant to the housing delivery strategy.

External borrowing has reduced as a result of the repayment of the maturing HRA Public Works Loan Board (PWLB) debt.

- 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 at 31 March 2021 and the change during the year is shown in Table 2.

Table 2: Treasury Management Summary

	31/03/20 Balance £m	Movement £m	31/03/21 Balance £m	31/03/21 Rate %
Long-term borrowing	(126.9)	4.3	(122.6)	3.32
Short-term borrowing	(4.3)	-	(4.3)	2.41
Total borrowing	(131.2)	4.3	(126.9)	3.29
Long-term investments	18.4	(1.9)	16.5	3.81
Short-term investments	20.1	5.0	25.1	0.29
Cash and cash equivalents	18.3	(10.0)	8.3	0.03
Total investments	56.8	(6.9)	49.9	1.42
Net borrowing	(74.4)	(2.6)	(77.0)	

Note: the figures in Table 2 are from the balance sheet in the Council's statement of accounts adjusted to exclude operational cash.

- 4.4. The increase in net borrowing of £2.6m shown in Table 2 reflects a reduction in investment balances of £6.9m partially offset by the repayment at maturity of borrowing of £4.3m, in line with the Council's policy on internal borrowing. Further details are provided in the Borrowing Activity and Treasury Investments Activity sections of this report.

5. BORROWING UPDATE

- 5.1. In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. The rate at which local authorities can borrow from the PWLB is defined by a margin above gilts; following the response to the consultation the margin above gilts on PWLB loans was reduced from 1.8% to 0.8%, however restrictions were introduced meaning that this rate would only be available to authorities not planning to purchase investment assets primarily for yield in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
- 5.2. As part of the borrowing process authorities are now required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.
- 5.3. The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate, if required.

6. BORROWING ACTIVITY

- 6.1. At 31 March 2021 the Council held £126.9m of loans, a decrease of £4.3m which was a maturity in the year. The vast majority of the outstanding loans are in relation to the resettlement of the HRA in 2012/13. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing Position

	31/03/20 Balance £m	Movement £m	31/03/21 Balance £m	31/03/21 Rate %	31/03/21 WAM* years
Public Works Loan Board	(131.2)	4.3	(126.9)	3.29	15.8
Total borrowing	(131.2)	4.3	(126.9)	3.29	15.8

* Weighted average maturity

Note: the figures in Table 3 are from the balance sheet in the Council's statement of accounts adjusted to exclude accrued interest.

- 6.2. 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.
- 6.3. Short-term interest rates have remained much lower than long-term rates and the Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing. In line with this strategy £4.3m of PWLB loans was allowed to mature without refinancing.
- 6.4. This borrowing strategy has been monitored by Arlingclose and has enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

7. TREASURY INVESTMENT ACTIVITY

- 7.1. 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 £48.0m and £126.4m due to timing differences between income and expenditure. During 2020/21 the UK central government distributed funding through grant schemes to support small and medium term businesses which resulted in more pronounced movements in the Council's investment balances. The year-end investment position and the year-on-year change are shown in Table 4.

Table 4: Treasury investment position

Investments	31/03/2020 Balance £m	Movement £m	31/03/2021 Balance £m	31/03/21 Rate %	31/03/21 WAM* years
Short term Investments					
- Banks and Building Societies:					
- Unsecured	4.1	5.0	9.1	0.04	0.0
- Secured	4.0	(4.0)	-	-	-
- Money Market Funds	15.3	(10.1)	5.2	0.01	0.0
- Local Authorities	9.0	8.0	17.0	0.31	0.2
- Registered Providers	4.0	(4.0)	-	-	-
- Cash Plus Funds	2.0	-	2.0	0.93	0.0
	38.3	(5.0)	33.3	0.23	0.1
Long term investments					
- Banks and Building Societies:					
- Secured	3.0	-	3.0	0.42	1.9
- Local Authorities	3.0	(3.0)	-	-	-
	6.0	(3.0)	3.0	0.42	1.9
High yield investments					
- Pooled Property Funds**	7.6	-	7.6	4.22	N/A
- Pooled Equity Funds**	3.0	-	3.0	6.09	N/A
- Pooled Multi-Asset Funds**	3.0	-	3.0	4.39	N/A
	13.6	-	13.6	4.67	N/A
TOTAL INVESTMENTS	57.9	(8.0)	49.9	1.45	0.3

* Weighted average maturity, excluding pooled funds

** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2021 based on the market value of investments at the start of the year.

Note: the figures in Table 4 are from the balance sheet in the Council's statement of accounts but adjusted to exclude operational cash, market value adjustments and accrued interest.

- 7.2. Investment balances have reduced as cash has been utilised in financing the Council's Capital Programme, including the provision of equity and loans to the Council's wholly owned group of housing companies.
- 7.3. 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. The Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.
- 7.4. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The Council invests in liquid investments to ensure money is available when

required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.

- 7.5. In delivering investment returns, the Council has operated against a backdrop in which the UK Bank Rate was cut to 0.10% in March 2020 in response to the coronavirus pandemic. It has remained at this rate throughout the year, having an impact on rates across the market. Returns had been at or around 0% for liquid investment options such as Money Market Funds (MMFs), bank call accounts and the UK Government's Debt Management Account Deposit Facility (DMADF) and have not been significantly higher for other short-term options like fixed duration loans to other local authorities and bank notice accounts. Investment income has therefore largely come from investments arranged at fixed rates of interest prior to the pandemic and through the Council's investments in pooled funds.
- 7.6. The Council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 March 2021 and at the same date in 2020 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)

	Credit rating	Bail-in exposure	Weighted average maturity (days)	Rate of return
31.03.2020	AA	46%	159	0.85%
31.03.2021	AA-	42%	106	0.22%
Similar LAs	A+	65%	40	0.13%
All LAs	A+	63%	14	0.15%

- 7.7. Table 5 shows the average credit rating of the portfolio was lower at 31 March 2021 than at the same time the previous year, largely as a result of the effect of the pandemic on credit ratings across the market, including that of the UK Government. Bail-in exposure was lower than at the same time in 2020, as the Council held greater investment balances with other local authorities, who are not subject to bail-in-risk, while the weighted average maturity of investments was lower as the Council held lower long-term balances due to the availability of appropriate longer term investments combined with the prudent management of liquid investment balances during an uncertain economic market. In addition there were timing differences between receiving and spending of Covid grants. The average rate of return (0.22%) was lower than at 31 March 2020, which is reflective of returns at or close to 0% for many investments across the market. The Council compared favourably with the other local authorities included in the benchmarking exercise across all metrics.

Externally managed pooled funds

- 7.8. In order to minimise the risk of receiving unsuitably low investment income, the Council has continued to invest a proportion of steady core

balances in externally managed pooled funds as part of its higher yielding strategy.

7.9. The CIPFA Code requires the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the Council's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the Council's investments.

7.10. The Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets but have since recovered well. This recovery means these investments are now worth only marginally less in aggregate than the initial sums invested, as shown in Table 6, demonstrating the importance of taking a longer term approach and being able to ride out periods of market volatility, ensuring the Council is not a forced seller at the bottom of the market.

Table 6: Higher yielding investments – market value performance

	Amount invested	Market value at 31/03/21	Gain / (fall) in capital value	
			Since purchase	2020/21
	£m	£m	£m	£m
Pooled property funds	7.60	7.47	(0.13)	(0.02)
Pooled equity funds	3.00	3.05	0.05	0.78
Pooled multi-asset funds	3.00	2.97	(0.03)	0.34
Total	13.60	13.49	(0.11)	1.10

7.11. The Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.28% pa (per annum) since purchase, contributing to a total return of 18.53%.

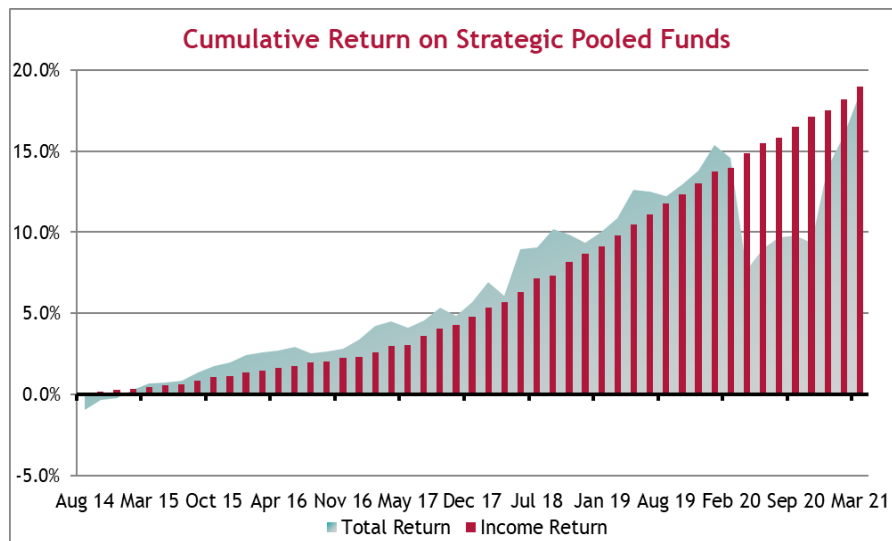
Table 7: Higher yielding investments – income and total returns since purchase

	Annualised income return	Total return
	%	%
Pooled property funds	4.18	19.19
Pooled equity funds	4.77	22.26
Pooled multi-asset funds	4.04	13.14
Total	4.28	18.53

7.12. Following advice from Arlingclose, the Council made prudent income forecasts for 2020/21 to reflect the impact of the pandemic and the challenging market conditions being faced by the investment managers of its pooled funds, identifying the potential impact in its revised budget. Actual income returns from pooled fund investments were more positive than this prudent forecast resulting in income of £0.63m, which was about

19.5% lower than in 2019/20. This is compared with the 25% to 30% reduction that could reasonably have been anticipated given the pandemic's impact on property rental income, company dividends and bond yields. The Council's pooled fund investments continue to deliver income returns far in excess of what could be generated from cash investments and accounted for 76% of the Council's total income from its treasury investments, despite making up only 15% of the average investment balance.

- 7.13. The cumulative total return from the Council's investments in pooled equity, property and multi-asset funds since purchase is shown in the following graph. This highlights that the Council has benefited from strong and steady income returns over time and the way that capital values have recovered since March 2020.



- 7.14. The IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five year statutory override was put in place for local authorities that exempts them from complying with this requirement.

- 7.15. Pooled fund investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the Council's investment objectives is monitored regularly and discussed with Arlingclose.

8. FINANCIAL IMPLICATIONS

- 8.1. The outturn for debt interest paid (HRA) in 2020/21 matched the budget set at £4.3m.
- 8.2. The outturn for investment income received in 2020/21 was £0.82m on an average investment portfolio of £88.45m, therefore giving a yield of 0.93%. By comparison, investment income received in 2019/20 was £1.29m on an average portfolio of £78.64m with a yield of 1.64%.

- 8.3. The budget for interest payable (HRA) has been reduced within the base budget for 2021/22, in reflection of the principal repayments commencing from 2017/18. The interest earning target for 2021/22 has been set based on an average investment portfolio of £69m and a return of 0.75%..

9. NON-TREASURY INVESTMENTS

- 9.1. 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 the Ministry for Housing, Communities and Local Government's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 9.2. This could include service investments for operational and/or regeneration reasons as well as commercial investments which are made mainly for financial reasons.
- 9.3. The Council's existing non-treasury investments are listed in Table 8.

Table 8 – Non-treasury investments		
	31/03/21 Asset value £m	31/03/21 Annual rate of return
Hythe Marina	2.54	4.57%
Saxon Inn Calmore	0.18	6.89%
Meeting House Lane	0.14	-
New Milton Health Centre	2.54	5.40%
Ampress Car Park	2.12	4.85%
Employment Land at Crow Lane	2.01	-
The Parade Salisbury Road Totton	1.43	7.66%
1-3 Queensway New Milton	0.88	8.21%
Unit 1 Nova Business Park	0.54	6.51%
Total investment properties	12.38	4.73%
Lymington Town Hall	3.45	2.88%
Hardley Industrial Estate	3.86	6.27%
Total income earning properties	7.31	4.67%
Grand total	19.69	4.71%

- 9.4. Three investment property purchases were made in 2020/21 pursuant to the Council's adoption of the Asset Investment Strategy in February 2017. All are included above and are all immediately income earning (with the Rate of Return reflecting an annualised calculation).
- 9.5. The Investment Property note within the Annual Financial Report gives further information on the net gains / losses, and fair value movements.

10. COMPLIANCE REPORT

10.1. The Council confirms compliance of all treasury management activities undertaken during 2020/21 with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

10.2. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 9.

Table 9: Debt limits

	2020/21 Maximum £m	31/03/21 Actual £m	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied
Total debt	131.4	126.9	159.8	176.9	✓

10.3. 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.

11. TREASURY MANAGEMENT INDICATORS

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

Interest rate exposures

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

Table 10 – Interest Rate Risk Indicator

	31/03/21 Actual	Impact of +/- 1% interest rate change
Sums subject to variable interest rates		
Investment	£49.9m	+/- £0.3m
Borrowing	£0.0m	+/- £0.0m

11.3. 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

11.4. 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 11: Refinancing rate risk indicator

	31/03/21 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	16%	25%	0%	✓
10 years and above	67%	100%	0%	✓

Principal sums invested for periods longer than a year

11.5. 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 were:

Table 11: Price risk indicator

	2020/21	2021/22	2022/23
Actual principal invested beyond a year	£16.6m	£14.6m	£13.6m
Limit on principal invested beyond a year	£40m	£40m	£40m
Complied	✓	✓	✓

11.6. The table includes investments in strategic pooled funds of £13.6m as although these can usually be redeemed at short notice, the Council intends to hold these investments for at least the medium-term.

12. OTHER

CIPFA Consultations

12.1. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

12.2. In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, such as recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

12.3. Proposed changes to the Treasury Management Code include requiring job specifications and “knowledge and skills” schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

IFRS 16

12.4. CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2022/23.

13. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

13.1. None arising directly from this report.

14. RECOMMENDATIONS

Members are recommended to:

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

Further information	Background papers
<p>Please contact:</p> <p>Gemma Farley Principal Accountant Investments & Borrowing Hampshire County Council gemma.farley@hants.gov.uk</p> <p>Alan Bethune Executive Head of Financial (S151) and Corporate Services New Forest District Council alan.bethune@nfdc.gov.uk</p>	<p>The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance</p> <p>Local Government Act 2003</p> <p>SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003</p> <p>Treasury Management Strategy Report 2020/21 Audit Committee – 24 January 2020 Council – 24 February 2020</p> <p>Treasury Management Mid-Year Monitoring Report 2020/21 Audit Committee – 23 October 2020</p> <p>Treasury Management Strategy Report 2021/22 Audit Committee – 29 January 2021 Council – 25 February 2021</p>

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AUDIT COMMITTEE – 2 JULY 2021

FINAL ACCOUNTS 2020/21 BAD DEBTS WRITE OFF

1. INTRODUCTION

- 1.1 This report informs Members of the total bad debts written off during the financial year 2020/21.
- 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 policy 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 (NDR)
 - Overpaid Housing Benefit
 - Housing and Garage Rents
 - Parking Penalty Charges
- 2.2. Criteria for write off include:
 - Abscond
 - Liquidations and bankruptcies
 - Deceased
 - Small balances
 - Enforcement Agent unable to collect/levy
 - Foreign Vehicles
- 2.3 The total debt written off for 2020/21 was £596,290 (£762,293 for 2019/20). This represents 0.25% of the total income collected (0.28% for 2019/20).
- 2.4 The total written off by service is detailed in Appendix 1 (a comparison for values written off during 2019/20 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 2020/21 year, together with comparative figures for 2019/20.

CATEGORY OF DEBT	2020/21 £	2019/20 £
COUNCIL TAX	5,541	14,766
NNDR	7,795	7,614
HOUSING BENEFIT incl. OVERPAID INVOICES	15	1,091
ACCOUNTS RECEIVABLE	Nil	180
HOUSING AND GARAGE RENTS	Nil	1
PARKING PENALTY CHARGES	Nil	Nil
STORES	Nil	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. Housing Benefit write-ons are where a previous debt which has been written-off is reversed to recover the amount.

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 2020/21, the NFDC provision is £2.987m (£2.655m in 2019/20).
- 3.2 The total provision made for each type of bad debt write off and the total arrears as at 31 March 2021 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).
- 3.3 The bad debt provision for council tax and business rates have been adjusted to reflect the impact of the pandemic, as recovery proceedings were suspended for the majority of 2020/21, and as the impact on businesses is uncertain. The provisions applied are:

Stage	Council Tax % for provision	Business Rates % for provision
Liability Order	50%	60%
Final	25%	40%
Reminder	10%	40%
Bill	5%	20%

Appendix 3 provides details of the workings

- 3.4 For Housing Benefit overpayments, a provision of 100% is made for any debt which is greater than one year and 50% where the debt is being recovered by DWP.
- 3.5 For Accounts Receivable a provision is made for debts which are greater than one year with an adjusted provision for rent deposit schemes and rent in

advance schemes where payment plans often exceed one year.

3.6 For Housing and Garage rent a provision is worked out as follows:

Arrears (£)	% of provision
0-100	0
100-250	10
250-500	25
500-750	50
750-1,000	75
1,000+	95

A provision of 95% is made for former tenant arrears.

3.7 Due to COVID-19 it is expected to be challenging in 2021/22 to recover arrears brought forward from 2020/21.

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. Details of the approval limits are shown in Appendix 4 with no proposed changes to existing limits.

5. RECOMMENDATIONS

5.1 That this report be noted.

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APPENDIX 1 CATEGORIES OF WRITE OFFS 2020/21

Category of Debt	Total Write Off	Number of Accounts	Average value of Account Written Off	Annual Income / Turnover	Provision Made 31/3/2021	Arrears Balance as at 31/3/2021	Write Off as % of Turnover	Reason for Write Off
	£		£	£	£	£		
Council Tax	286,408	1,057	271	131,839,000	1,793,560	4,432,000	0.2	Abscond, bankruptcy, deceased, no goods on which to levy, other, small balance.
NNDR	176,876	36	4,913	40,348,000	664,180	1,498,000	0.4	Abscond, bankruptcy, no goods on which to levy, other, small balance.
Housing Benefit incl Overpaid Invoices	99,373	134	742	31,729,000	997,570	1,392,000	0.3	Abscond, bankruptcy, collection, deceased, Local Authority/DWP error, small balance.
Accounts Receivable	0	0	0	6,134,000	691,500	3,116,000	0.0	N/A
Housing and Garage Rents	12,786	15	852	29,318,000	755,000	1,027,000	0.0	Abscond, bankruptcy, deceased, collection agency unable to collect, individual voluntary agreement/debt relief order, old, small balance.
Parking Penalty Charges	20,847	281	74	2,532,000	8,922	77,816	0.8	Abscond, bailiff unable to collect/no goods on which to levy, bankruptcy, foreign vehicle.
Stores	0	0	0	0	0	0	0	N/A
Total	596,290	1,523		241,900,000	4,910,732	11,542,816		

APPENDIX 1 CATEGORIES OF WRITE OFFS 2019/20								
Category of Debt	Total Write Off £	Number of Accounts	Average value of Account Written Off £	Annual Income / Turnover £	Provision Made 31/3/2020 £	Arrears Balance as at 31/3/2020 £	Write Off as % of Turnover	Reason for Write Off
Council Tax	207,813	1,292	161	127,318,000	1,286,690	3,272,000	0.2	Abscond, bankruptcy, deceased, no goods on which to levy, other, small balance.
NDR	256,389	113	2,269	68,635,000	273,070	890,000	0.4	Abscond, bankruptcy, no goods on which to levy, other, small balance.
Housing Benefit incl Overpaid Invoices	87,328	238	367	32,672,000	1,063,050	1,595,000	0.3	Abscond, bankruptcy, collection, deceased, Local Authority/DWP error, small balance.
Accounts Receivable	147,703	362	408	8,573,000	620,210	3,165,000	1.7	Abscond, bankruptcy, small balance, uneconomical to pursue.
Housing and Garage Rents	33,871	35	968	29,158,000	660,000	942,000	0.1	Abscond, bankruptcy, deceased, collection agency unable to collect, individual voluntary agreement/debt relief order, small balance.
Parking Penalty Charges	26,546	426	67	3,425,000	12,010	99,000	0.8	Abscond, bailiff unable to collect/no goods on which to levy, bankruptcy, deceased, foreign vehicle.
Stores	643							Picking errors
Total	762,293	2,466		269,781,000	3,915,030	9,963,000		

Council Tax Arrears by Recovery Stage			% for Provision	Appropriate Provision
	Actual	Adjusted		
	£000	£000		£000
At Liability Order Stage	2,719	3,543	50	1,771
At Final Notice Stage	1	0	25	0
At Reminder Stage	972	354	10	35
At Bill Stage (by deduction)	737	532	5	27
Total	4,429	4,429		1,833
Reduction for Court Cost Arrears				-39
Total				1,794

The adjustment is apportioning the amount of arrears at each stage using the average of the previous three financial years year end position. The adjustments applied to the total arrears are 80% at Liability Order, 8% at Reminder and 12% at Bill stage.

NNDR Arrears by Recovery Stage			% for Provision	Appropriate Provision
	Actual	Adjusted		
	£000	£000		£000
At Liability Order Stage	566	804	60	482
At Reminder Stage	231	241	40	96
At Bill Stage (by deduction)	812	564	20	113
Total	1,609	1,609		691
Reduction for Court Cost Arrears				-14
Total				677

The adjustment is apportioning the amount of arrears at each stage using the average of the previous three financial years year end position. The adjustments applied to the total arrears are 50% at Liability Order, 15% at Reminder and 35% at Bill stage.

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
	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 – 2 JULY 2021

PROCUREMENT RULES, REGULATIONS & CONTRACT STANDING ORDERS – WAIVERS 2020/21

1. PURPOSE OF REPORT

- 1.1 This report updates Members on waivers to Procurement Rules, Regulations & Contract Standing Orders approved during 2020/21.

2. BACKGROUND

- 2.1 The Procurement Rules, Regulations & Contract Standing Orders provides the rules to be followed for the procurement of goods, services and works and ensures 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 of which the Council is a member
 - Works carried out under 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
 - Financial advice sought by the s151 officer
- 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 2020/21:

Table 1 – Delegated authority to approve waivers

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

3. WAIVERS GRANTED 2020/21

- 3.1 There were 5 applications for a waiver against the Procurement Rules, Regulations and Contract Standing Orders between 1 April 2020 and 31 March 2021, of which 4 were approved and 1 is still in progress. The total value of all approved waivers was £1,000,053. This compares with 39 applications submitted during 2017/18, with approved waivers totalling £2,964,979.96; 14 applications in 2018/19 with a value of £409,695.00; and 10 applications in 2019/20 with a total value of the 7 approved waivers of £301,148.00.
- 3.2 The Standing Orders that were waived are detailed in Table 2.

Table 2 - Contract Standing Order (SO) Paragraph Number and Detail

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.
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.
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.

- 3.3 Two of the approved waivers were over £100,000 in value.
- 3.4 There were no waivers that were rejected during the year.
- 3.5 There is one 1 waiver application that is still in progress with a value of £15,608.

4. FINANCIAL IMPLICATIONS

- 4.1 Procurement Rules, Regulations and Contract Standing Orders ensure that there is a robust process in place to ensure the Council obtains value for money. There will be some occasions when the usual rules can be applied to be lifted. There will have to be robust justification for any waivers to be granted.

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 2020/21.

For further information contact:

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Solicitor
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Background Papers:

Contract Standing Orders

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AUDIT COMMITTEE – 2 JULY 2021

FRAUD – ANNUAL REPORT 2020/21

1. INTRODUCTION

- 1.1 The Council is committed to preventing and detecting fraud and will deal openly and forcefully with anyone who acts dishonestly. This report provides an update of the fraud activities for 2020/21.
- 1.2 The Corporate Fraud and Compliance Officer is 0.53 of a Full Time Equivalent.
- 1.3 COVID has had an impact on fraud activities during 2020/21, with interviews being suspended.
- 1.4 The Corporate Fraud and Compliance Officer supported the Benefits team during April, May and June due to increased workloads, and supported the Revenues Team with the administration of Business Support Grants.

2. FRAUD REFERRALS

- 2.1 In 2020/21 there have been 62 fraud referrals received relating to Housing Benefit, Council Tax Reduction or Housing. Two internal investigations were also conducted. Referrals are received via Department for Work and Pensions, our website, by phone to our dedicated line, or internally from staff. The category of referral is shown within the following table:

Type of referral	No of referrals	Ongoing cases	Closed cases
Living Together	28	14	14
Undeclared Capital	5	1	4
Undeclared Earnings	15	5	10
Household composition	11	4	7
Housing Tenancy	1	0	1
Internal	2	0	2
Total Referrals	62	24	38

- 2.2 Following investigations there has been a total of £973.27 in Council Tax Reduction non-entitlement. This resulted in a £70.00 Civil Penalty being issued and paid.
- 2.3 An allegation of non-residency of a council property was received and investigated jointly with Housing which resulted in the tenant surrendering the tenancy, freeing up a property for allocating to the Homeseach register.
- 2.4 The outcome of the referrals where investigations have concluded are detailed in Appendix 1.

3. POLICY UPDATE

3.1 The following policies have been reviewed and will be brought to the next Audit Committee:

- Money laundering
- Whistleblowing
- Fraud Strategy

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

4.1 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 Due to COVID DWP suspended investigations in 2020/21, however, this is due to resume soon.

5. NATIONAL FRAUD INITIATIVE

5.1 The council undertakes the Cabinet Office National Fraud Initiative which is an exercise that matches data within and between public and private sector bodies to prevent and detect fraud. We received our latest data-matches in January 2021 and have commenced reviewing these. We target referrals considered to be high risk of fraud.

5.2 The breakdown of data matches is as follows:

Area	No. of matches
Internal (payroll/pension/procurement)	32
Housing Estates (non-residence/deceased/right to buy)	106
Housing Options (waiting list)	16
Revenues & Benefits (non-residence/entitlement/income)	489
Finance (duplicate creditors)	195
HMRC – capital, property ownership	TBC
Business Grants	38
Total	876

5.3 From the matches to date, 118 have been checked, with 758 matches still to be reviewed and investigated where appropriate. The results have identified one Council Tax Reduction claim with undeclared earnings, detailed in 2.2 above.

6. BUSINESS SUPPORT GRANTS

- 6.1 In response to COVID the council has administered various grants to support businesses. The application form had in-built security checks to minimise fraudulent claims. We have used Spotlight and NFI data-matching software to check eligibility to over 5,000 grant applications and contacted businesses where discrepancies or criteria were not met, for example a business was insolvent or subject to a striking off notice.
- 6.2 Investigations were also undertaken from referrals from Economic Development to ensure eligibility. One such investigation resulted in a grant being recovered to which there was no entitlement.
- 6.3 We received regular updates from Hampshire County Council on known fraudulent applications identified from across the country and checked our records. Three grants totalling £60,000 were paid to an organised fraudster, operating nationally, with details being known after the payment. This was reported to the National Anti-Fraud Network. We also received two applications for the Additional Restrictions Grant from claimants confirmed to be fraudsters, however, due to our robust pre-payment checks these applications had already been refused.

7. TRAINING

- 7.1 We are reviewing the e-learning training module and this will be published to staff for mandatory completion during 2021/22.
- 7.2 All 80 staff who are Procurement Card holders received training during 2020/21.
- 7.3 There is attendance at the Hampshire Fraud Group to keep updated on any changes and to discuss training, new initiatives, and good practices.

8. FRAUD RISK REGISTER

- 8.1 As part of promoting a counter fraud culture, and to raise awareness, each service was asked to consider and complete a fraud risk register for their service. This meant Service Managers reviewing their service to identify potential risks of fraud, the controls in place and if any controls are required to eliminate or mitigate fraud.
- 8.2 Service Managers are responsible for reviewing their Fraud Risk Register as part of the annual review process to ensure accuracy and to reflect any changes to service delivery.

9. PUBLICITY

- 9.1 We continue to publicise fraud where appropriate and let it be known that we act on information shared with us.

10. FUTURE ACTIVITIES

10.1 We will be reviewing our website to include a central fraud landing page with links to services, for example Housing, to provide information and how to report fraud, as well as information about scams. We will also utilise social media to promote awareness.

11. RECOMMENDATION

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

Further Information:

Ryan Stevens

Service Manager – Revenues and Benefits

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Appendix 1 - Results for 2020/21

Allegation/Investigation	Result	Resulting action or penalty
Internal Investigation	Member given guidance on protocols.	Advice given
Whistleblowing	Considerations & Action Plan drawn up.	
NFI undeclared Earnings for CTR	Non entitlement to Council Tax Reduction of £973.27	£70 Civil Penalty issued
Housing Non-residency	Investigation undertaken & tenant was visited at home which established tenant was not living in property as main residence.	No penalty as tenancy surrendered and savings made on property recovery, national estimate £18.000
Application for Additional Restrictions Grant	Non-eligibility to the grant	Invoice sent for £1,000
Small Business / Discretionary Grant – Matching with other LA	NFDC Grant issued correctly	NFDC Grant issued correctly but a grant at another council may be recovered
National level fraud relating to Non-entitlement to Retail, Hospitality and Leisure Grant	Three cases identified at NFDC totaling £60,000	Reported to National Anti-Fraud Network.

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EMT – 29 JUNE 2021
AUDIT COMMITTEE – 02 JULY 2021

ANNUAL INTERNAL AUDIT REPORT AND OPINION 2020-21

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 2021.

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 2020-21 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the adequacy and effectiveness of 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 2021.
- 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 2020-21;
 - The Council's framework of governance, risk management and management control is considered to be 'Reasonable' 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 2020-21 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 note the Annual Internal Audit Report and Opinion for 2020-21.

For Further Information Please Contact:

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Background Papers:

Internal Audit Plan 20-21

Annual Internal Audit Report & Opinion

2020-21

New Forest District Council



Southern Internal Audit Partnership

Assurance through excellence
and innovation

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1. Role of Internal Audit

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

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

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



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

‘Independent, objective assurance and consulting activity designed to add value and improve an 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 provides 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 Deputy Head of the Southern Internal Audit Partnership 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.



The impact of COVID-19 during the year has had a significant impact on the way we have worked and interacted. The enforced central government directive *‘if you can work from home, you must do so’* has required the Southern Internal Audit Partnership to adopt a revised operating model and innovative approach to virtual auditing.

Work contributing to my 2020-21 annual opinion has all been undertaken virtually, optimising technology and virtual platforms to share, monitor and observe operations to substantiate our findings.

I am confident that the revised operating model has not compromised quality or SIAP’s ability to complete assurance work throughout the year or the conclusion drawn. I would wish to extend my appreciation to Council officers with whom we have worked during the year for their support, cooperation, and seamless transition to the virtual audit approach without which the delivery of an annual opinion would not have been possible.

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3. Internal Audit Opinion

The Deputy Head of the Southern Internal Audit Partnership (SIAP), as the Council's Chief Internal Auditor, 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 the Council's audit need that has been covered within the period.

Annual Internal Audit Opinion 2020-21

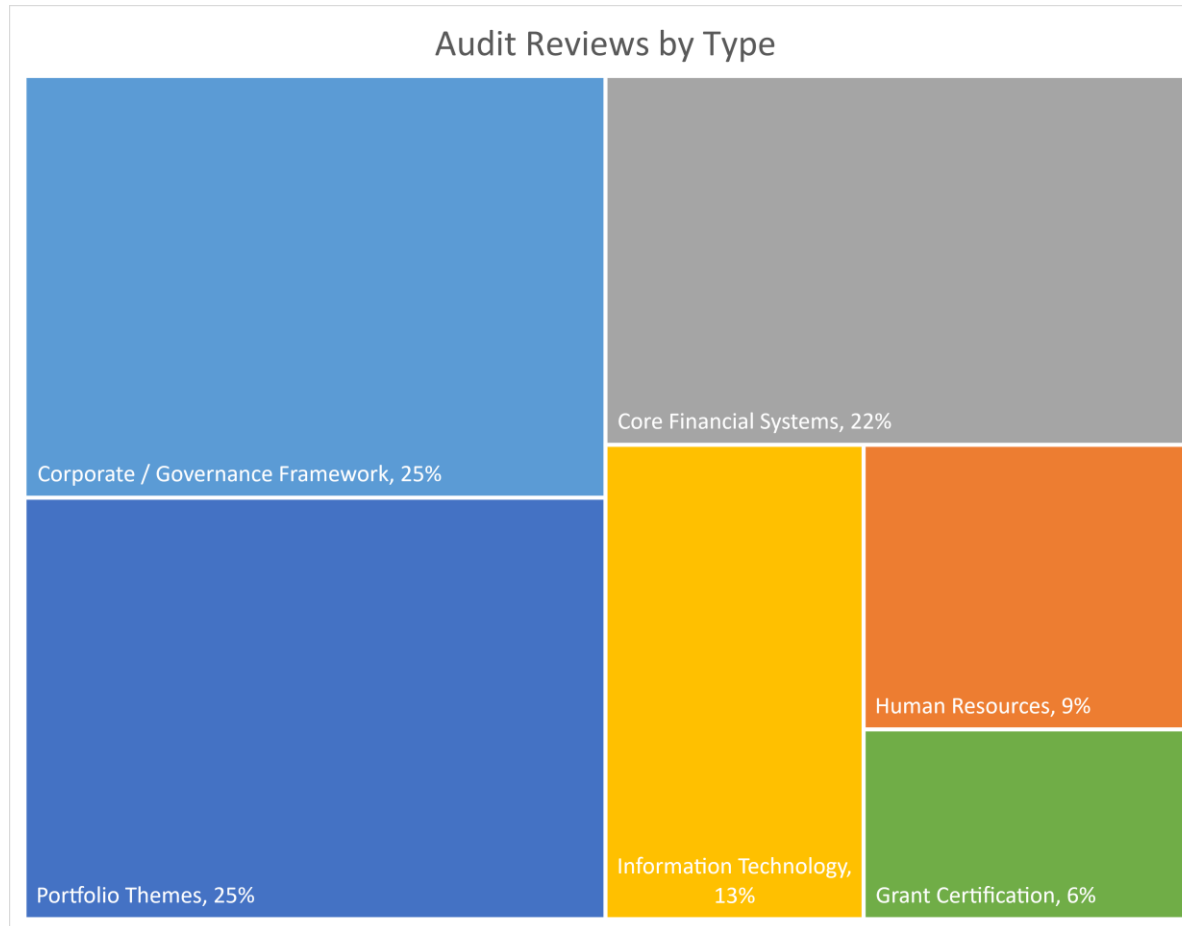
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment.

In my opinion, New Forest District Council's framework of governance, risk management and control is 'Reasonable' 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 so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2020-21 Internal audit plan was informed by internal audit’s own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

The scale of COVID-19 coupled with the speed of its impact and the wide-ranging challenges presented has necessitated new and different ways of working across the Council. Such challenges and subsequent resolutions bring with them new and emerging risks that management need to consider, manage, and mitigate. The plan has remained fluid throughout the year to maintain an effective focus.

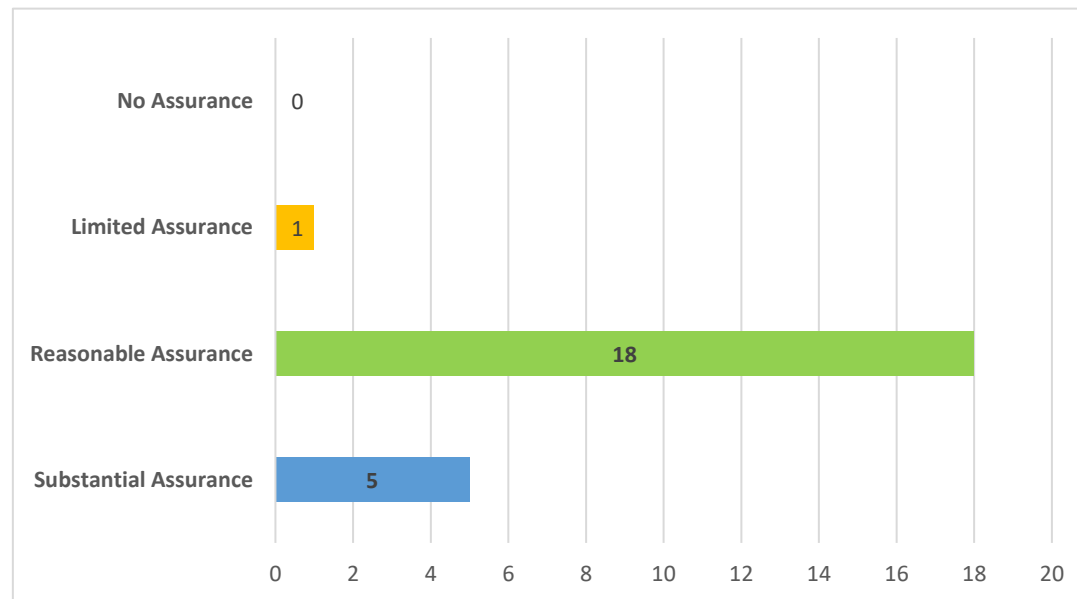
In delivering the internal audit opinion internal audit have undertaken 32* reviews during the year ending 31 March 2021.

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Due to the significant impact and subsequent challenges posed by the COVID-19 pandemic, there has been an inevitable impact on the delivery of the revised 2020-21 internal audit plan. Work is in progress for the Housing Rents review however the audit has not progressed sufficiently in order to form an opinion and issue a draft report.

Work is substantially complete, and an opinion has been formed for a further three reviews, although final reports have not yet been agreed. I do not expect the outcomes of these reviews to change or to adversely impact my annual opinion.

The opinion assigned to each internal audit review (including draft reports) is summarised below and a list of the 2020-21 assurance reviews undertaken and their respective opinions is provided in Annex 1:



Substantial –A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

*7 reviews did not culminate in an audit opinion as they relate to two COVID-19 related Grant Certifications; providing an advisory role to three service areas; the provision of Fraud Training relating to the use of Procurement cards; and the follow-up of previous audit findings and agreed actions in relation to Fleet Management).

5. Key Observations

The Council's main financial system, Business World, was implemented in April 2020 as a replacement to the legacy Agresso system. To account for the change to Business World, all financial reviews were intentionally scheduled to be completed during quarters three and four of 2020-21. The scheduling provided the opportunity for the new systems and processes to become embedded and provide a more complete view of activity within the year after such a significant change. Despite the inevitable challenges and drain of Officers' time presented by the change in fundamental systems, together with reacting to COVID-19 and adopting to new ways of working, we are pleased to report that controls were generally sound. Whilst there are some opportunities to improve controls as a result of the system changes and additional pressures faced during 2020-21, there were no significant issues identified arising from the work completed during 2020-21.

We are also pleased to report that Internal Audit work found there to be a generally sound control environment in place across the majority of review areas during the year, which were found to be working effectively to support the delivery of corporate priorities. No reviews concluded with a 'No Assurance' opinion although one review has concluded with a 'Limited Assurance' opinion as summarised below:

Payroll Increments

Following the successful implementation of a new payroll system, iTrent, towards the end of 2018-19, and in response to a management request, we undertook a detailed review of the 2020 payroll increment process in February 2021 to identify potential weaknesses and areas for improvement in advance of applying increments in 2021.

Employee contracts clarify that pay progression is reviewed each year, is based on performance, and confirm that incremental progression is not guaranteed. The review of the 2020 payroll increments found that whilst that vast majority of increments were appropriately applied (where applicable) in a timely manner, and any errors were rectified promptly once identified, to a certain extent the processes were reliant on both the Management and Payroll Team's understanding of the actions required.

There is no formal, documented process for the Management Team to utilise covering the process to advise Payroll of incremental pay awards or the timeframes the annual process usually follows. There are three differing processes for confirming if increments apply, depending upon the seniority of the staff members. Whilst an e-mail was sent to EMT and Service Managers outlining requirements and timeframes, the 2020 communication was not sufficiently comprehensive, did not cover all three of the differing processes and was not initially cascaded to all relevant staff. Whilst the Payroll Managers have process documentation detailing how to run the bulk update process for Spinal Column

Points (SCP) increments within iTrent, there is no documentation detailing the entire increment process, including the sequential order of required actions, who within Payroll is assigned responsibility for actioning, or when action is required by.

For the 2020 increments, the processes lacked structure when collating management responses, double-checking interpretations, and confirming that they have been actioned. No reconciliations were carried out to ensure that the spreadsheet covered the expected number of posts nor was the final SCP position within iTrent for all staff cross-referenced back to the actions identified in the spreadsheet.

The Payroll Team have confirmed that, where possible, all mitigating actions to address the issues identified in the 2020 increment process were implemented for 2021 (11 out of 13 actions) and the Team intend to document processes and produce guidance by the end of October 2021, well in advance of the 2022 process.

6. 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 2020.

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

‘The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.’

7. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through 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.

8. 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 2020-21 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
- An independent external quality assessment against the IPPF, PSIAS & LGAN.

9. Internal Audit Performance

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

Performance Indicator	Target	2020-21 Actual
Percentage of revised internal audit plan delivered (to draft report stage)	95%	97%
Positive customer survey response – all SIAP Partners	90%	98%
Public Sector Internal Audit Standards	Compliant	Compliant

Customer satisfaction was collated for SIAPs EQA and is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date May 2020).

10. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the 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 the Southern Internal Audit Partnership
June 2021

2020-21 Audit Reviews and Opinions

Substantial Assurance	Reasonable Assurance	Limited Assurance	No Assurance
<ul style="list-style-type: none"> 1. Fraud Governance 2. Council Tax 3. Business Grants (COVID) 4. HMO Licensing 5. Gas Inspections 	<ul style="list-style-type: none"> 1. Information Governance – FOI & SAR 2. Procurement 3. Contract Management 4. Health & Safety (COVID-19) 5. Governance – Decision Making (COVID) 6. Recruitment 7. Travel, Expenses and Overtime 8. NNDR 9. Accounts Payable 10. Accounts Receivable and Debt Management 11. Income Collection and Banking 12. Main Accounting and Reconciliations 13. Northgate Application (ICT review) 14. Cyber Security (draft report) 15. Housing Finance Management (Tenancies) 16. Disabled facilities Grants 17. Housing Asset Management – Supply Chain Arrangements (draft report) 18. Coastal Management and Protection (draft report) 	<ul style="list-style-type: none"> 1. Payroll Increments 	<p>None</p>

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AUDIT COMMITTEE – 2 JULY 2021

CODE OF GOOD GOVERNANCE REVIEW ANNUAL REPORT OF THE MONITORING OFFICER AND CHIEF FINANCE OFFICER IN RESPECT OF 2020/21

1. INTRODUCTION

- 1.1 The Council's Monitoring Officer and the Chief Finance Officer are responsible for annually reviewing the Council's compliance against the adopted CIPFA/SOLACE Code of Good Governance - "*Delivering Good Governance in Local Government Framework 2016*" 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.
- 1.2 This report brings together the outcomes of the review carried out for 2020/21.

2. REVIEW OF COMPLIANCE

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

A	Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
B	Ensuring openness and comprehensive stakeholder engagement.
C	Defining outcomes in terms of sustainable economic, social and environmental benefits.
D	Determining how to best optimize the achievement of intended outcomes
E	Developing the entity's capacity, including the capability of its leadership and the individuals within it.
F	Managing risks and performance through robust internal control and strong public financial management.
G	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 considers progress made against the previous year's (2019/20) Action Plan, which was reported to Audit Committee in July 2020. The reported progress can be found in **Appendix 2**.
- 2.4 The main areas identified for further improvement arising out of 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**.

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E-mail: alan.bethune@nfdc.gov.uk

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 2020/21

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 are regularly reviewed to ensure they are fit for purpose - Procurement Strategy 2018 - http://www.newforest.gov.uk/article/1070/Procurement-Strategy . Comprehensive Scheme of Delegations and transparent decision making processes. Robust financial procedures ensuring probity and openness in decision making. Protocols in place for statutory Chief Officers in carrying out their functions. Member and Officer Codes of Conduct in place, as well as an established complaints procedure. Register of Gifts and Hospitality for Members and Officers. Up to date whistleblowing policy, equality & diversity and data protection training modules in place. Good emphasis on ICT security through the Council's Security Policy which keeps 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. The organisation responded well to the requirement for virtual meetings during the pandemic. 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. New Local Plan in place; 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, Mystery Shopper; Annual User Survey. Good engagement with relevant charities/voluntary groups 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.

	Employee survey conducted Spring 2021, to gauge employees' views on more flexible, hybrid working model. This has resulted in a new Worksmart Policy allowing employees and management to agree that part of the working week can be at an alternative location to the Council's existing offices.
C. How does the organisation define outcomes in terms of sustainable economic, social and environmental benefits?	Good standard of reports; Corporate Plan; Corporate Framework; Local Plan ; 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. The Council has set up a Greener Housing Task and Finish Group to respond to the Government's commitment to be carbon neutral by 2050. A new Greener Housing Strategy is being devised by the Group and will be proposed for adoption later in 2021.
D. How does the organisation determine how to best optimize the achievement of intended outcomes	Evidence of well thought out processes involving key officers including EMT at relevant stages of new projects/initiatives. Well established reporting to Cabinet, Audit Committee and Overview and Scrutiny Panels 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>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 responsibility. 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 through continuous professional learning programmes and opportunities for self-development. Well established annual appraisal process. Opportunities for secondments and apprenticeships; benchmarking; training programmes in existence including Health & Safety, Fire Safety, Safeguarding, Equalities, Social Media; Staff 1:1s; Employee Survey in Spring 2021. 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 visits to teams within the organisation and Chief Executive communications. The pandemic has understandably tested the capacity of the organisation during 2020/21. The increased pressures for many services and the resultant impact on staff has clearly been challenging. Increased support from Human Resources to help staff remain resilient has been beneficial.</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 Panels 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 and openness in making decisions. Detailed Medium Term Financial Planning and Financial Monitoring reporting throughout the year. Emergency budget agreed for 2020/21 to take into account the impact of the pandemic on Council services. 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. The Council's business continuity arrangements have been extensively tested as a result of the Covid 19 pandemic which has demonstrated that the Council can react to working remotely and in very different ways to deliver services to the community.</p>

G. How does the organisation implement good practices in transparency, reporting and audit to deliver effective accountability?

Well established reporting to Cabinet, Audit Committee and Overview and Scrutiny Panels. 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 within last 3 years which 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.

Progress against Actions arising from the previous year's Code of Good Governance Review

Topic	Responsible Officer	Deadline	Follow up status
To review the robustness and adequacy of governance arrangements and decision making in respect of the Council's HRA development programme including the development of a Housing Development Plan.	Executive Heads/EMT	March 2021	Whilst the Council has robust arrangements in place in respect of the budgeting and decision making in respect of the acquisition and development of new HRA affordable housing, it is proposed to have the arrangements set out within a composite new Housing Development Plan. The development of this Plan has been slightly delayed due to the pressures of Covid and will be finalised during 2021/22.
To review the robustness and adequacy of governance arrangements and decision making in connection with the Council's Commercial Property Investment Strategy.	Executive Heads/EMT	March 2021	The arrangements have been reviewed and are considered to be robust. The Investment Panel has been formally constituted and works well.
To review the implementation of the Council's performance development framework with particular emphasis on the production of Service specific 'performance dashboards' to complement Portfolio Holder dashboards to ensure consistency across the Council.	Executive Heads/EMT	March 2021	This has been concluded during 2020/21 and has resulted in clear 'performance' dashboards across Services to complement Portfolio Performance Dashboards.

APPENDIX 3

Actions arising from the Good Governance Review 2020/21

Topic	Responsible Officer	Deadline
To keep under review the actions arising following the in-year review of the Council's Information Governance practices and ensure that the new improvements identified are implemented	S151 Officer and Monitoring Officer	March 2022
Financial Management Code – to review how the Council complies with the new code (as full implementation is expected in 2021/22)	S151 Officer and Monitoring Officer	March 2022
Payment Card Industry Data Security Standard Accreditation (changes to telephony required and included within 2021/22 ICT work programme)	S151 Officer	March 2022

AUDIT COMMITTEE – 2 JULY 2021

DRAFT ANNUAL GOVERNANCE STATEMENT – 2020/21

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 accordingly and this will be monitored by the Council's Executive Management Team and Audit Committee.
- 2.4 Whilst the AGS covers the period 1st April 2020 to 31st March 2021, the document remains open for update until it is approved in September 2021 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 2020/21 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 31st March 2021 as reported in Appendix 1.

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Background Papers

Delivering Good Governance in Local
Government Framework 2016

**THE ANNUAL GOVERNANCE STATEMENT
NEW FOREST DISTRICT COUNCIL
2020/21**

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 the systems and processes, as well as the culture and values, by which the authority is directed and controlled and 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 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 and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks materialising and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. The Governance Framework

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

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

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. The MTFP is underpinned by the healthy Budget Equalisation and General Fund reserves and these enable the Council to respond to changes accordingly.

During 2020, the world-wide Coronavirus COVID-19 pandemic has impacted global economies in ways that haven't been seen for decades. The UK's response has included an unprecedented package of financial measures to try and protect and restimulate the UK economy.

Local Authorities have been significantly impacted with disruption to services, enforced home-working, responding to new legislation and responsibilities and playing a key role in the testing and vaccination programmes.

Within this Council, a number of initiatives were introduced during 2020/21, including the provision of a shopping service to help the most vulnerable within our communities, support to open up the economy whilst not in lockdown, payments of significant levels of mandated and discretionary business support grants and financial support to those who have suffered financial hardship as a result of being required to self-isolate. The Council has also provided staffing and sites for vaccination roll out and COVID-19 testing.

Early in 2020, the Council's Cabinet agreed that the Council would need to re-cast the Medium Term Financial Plan, including the provision of an Emergency Budget for 2020/21 in light of the severity of the impact to the Council's budget. Four Task and Finish Groups were established to assist in the Council's recovery plan and meetings commenced in June 2020. Regular updates and Task and Finish Group recommendations were reported through to the Cabinet during 2020/21.

The Audit Plan for 2020/21 was flexed to take account of the new ways of working, and the new responsibilities placed on the Council (for example, Business Support Grants). The updated plan reflected on services which were under significant pressure, or performing duties outside of their normal service delivery.

Over the years, the Council has developed a number of successful joint or collaborative working arrangements with other public partners. This has continued into 2020/21 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 bodies such as the 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 where opportunities for improvement are identified.

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 their framework to ensure that it still reflects the environment in 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 centring on the attainment of sustainable economic, societal and environmental outcomes. Council approved the revised code in April 2017 which follows the recommended text in the CIPFA/SOLACE framework.

In April 2021, a new Council Leader was appointed. The newly appointed Leader was previously Deputy Leader and has been a member of the Cabinet for several years.

During 2020/21, the chancellor announced that the Solent Freeport bid would move onto the next stage with the Solent LEP taking a lead role on the development of the full business case. A new board has been established with the key stakeholders, with the Council's Leader taking a seat on the board.

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.

This 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 2020/21 are included below:

1. A number of Council policies were reviewed or new Plans/Policies implemented including:
 - Shared Ownership Scheme
 - The Local Plan
 - Statement of Community Involvement (how the Council engages the public on planning applications)
 - Private Sector Housing Strategy
 - Local Connection Restriction Policy
 - Affordable Rent Policy
 - Housing Asset Management Strategy
 - Numerous Business Support Grant Policies
2. The Council's Executive Management Team remained unchanged throughout 2020/21. Subsequently, in April 2021, Council agreed to a request made by the deputy Chief Executive for early retirement on the grounds of efficiency. The Chief Executive then carried out a review of executive areas of responsibility and made some changes to ensure every service fit with an executive head. Following these changes, in May, the Chief Executive confirmed he would be retiring in August 2021.

3. One of the requirements of the GDPR is to appoint a Data Protection Officer (DPO). The role of the DPO is to oversee the Councils compliance with GDPR and provide advice in relation to the law. The Service Manager for Legal held the DPO position until his departure from the authority in May 2021. The DPO position is now held by a Solicitor within Legal Services who holds the EU General Data Protection Regulation Practitioner qualification.
4. The Council's arrangements for financial management and reporting are sound and are well documented. Proposals for asset maintenance expenditure are supported by a business case as are new requests for revenue resources. These are scrutinised initially by EMT and the relevant Service Portfolio Holder prior to inclusion within the budget setting process. 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.
5. 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 are in place with an annual report of work carried out presented to Council.
6. In line with the continuous improvement culture of the Council, it is recognised that all Members and Officers of the Council must have the skills, knowledge and capacity that they need to discharge their responsibilities effectively and therefore significant emphasis is placed on continuous improvement and development.
7. The responsibility of S151 functions sits with the Chief Finance Officer (from May 2021 title updated to 'Executive Head of Financial (S151) and Corporate Services') who undertakes that statutory role. The Executive Head of Governance and Housing 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 Housing (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.
8. 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 went live during April 2018, following approval by full Council. The next review will take place in 2021/22 to ensure they remain fit for purpose.
9. Performance Management ensures strategic monitoring with a focus on organisational and service based indicators, reflecting the aims and objectives of the Corporate Plan. A review of the Council's Performance Management Framework commenced during 2019/20 and was finalised in 2020/21. Portfolio Holder dashboards were presented to Overview and Scrutiny Panels during 2020/21 increasing transparency of performance and risks to service delivery.
10. The Audit Committee meet 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.
11. The Council reviewed its insurance and risk management arrangements and employed a new officer during 2019/20 with responsibility for these respective areas. The Council's approach to risk management has been long standing, although the annual review originally scheduled for March 2020 was temporarily postponed. The Audit Committee attended a Strategic Risk Management training session in January 2021 delivered by a third party from the Council's

insurers. The Council's Strategic Risk Register was fundamentally reviewed during 2020/21 to take account of the worldwide Pandemic. An updated version was reviewed by the Audit Committee in January 2021 and subsequently adopted by the Council during the year. The document remains under regular review as a result of the constantly changing national and international situation.

12. 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 and the Executive Management Team. The Committee has also received reports and updates from the External Auditor.
13. 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.
14. 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 his 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 'Reasonable' and audit testing has demonstrated controls to be working in practice
 - where weaknesses have been identified through internal audit review, Internal Audit have worked with the Council's management to agree appropriate corrective actions and a timescale for improvement.
15. 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.
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. The Audit Committee received an update during 2019/20 on cyber risks, and as a result of an adopted recommendation from that meeting, has since taken out a cyber insurance policy. ICT also reviewed the ICT Security Policy during 2020/21, to take specific regard of the increased home working experienced from March 2020.
17. Internal Audit has reported a 'Reasonable' opinion on the overall control environment. One limited assurance audit opinion was given and monitoring of progress against the management actions of this audit will continue into 2021/22. The following audit area has previously received high priority recommendations:
 - Payment Card Industry Data Security Standard Accreditation
 - Work has been ongoing during 2020/21 and a single payment process has been identified as a blocker to compliance. Work has commenced on addressing this process.
18. 2020/21 was the first full year of the Council using the new Finance System, as implemented during 2019/20. The new system has had coverage through the internal audit plan and 'Reasonable' assurance has been given.

19. The implementation of the new finance system in 2020/21 saw the introduction of revised workflow (approval) processes for the raising and payment of invoices. These were tested by internal audit during the year and no weaknesses identified.
20. A data breach was reported to the Council in during the period covered by this AGS. The Council's two statutory officers immediately worked closely together on a review of information governance across the Council and the suggested actions were reported to, and endorsed by the Executive Management Team. EMT will monitor the effectiveness of the actions put in place during 2021/22.
21. In February 2021, Council made a decision to award an operating contract to Wealdon Leisure Ltd, trading as Freedom Leisure, to commence on 1st July 2021 for an 11 year period, with the option to extend for a further 4 years. The operating agreement has been agreed by both parties and as included within that agreement, the Council and the operator will both have representation on a new partnership board which will be responsible for ensuring the operator delivers on the Council's service specification and performance indicators.

5. Financial Management Code

In December 2019, CIPFA introduced a Financial Management Code. The driver for this was the exceptional financial circumstances faced by local authorities, having revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. The Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time it sets out the standards of financial management for local authorities.

The underlying principles that inform the Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. Each local authority must demonstrate that the requirements of the Code are being satisfied. This is a collective responsibility of elected Members, the CFO and their professional colleagues in the Leadership Team.

Local authorities should be able to demonstrate they are working towards full implementation for the first full year of compliance in 2021/22.

The Section 151 Officer will produce a report on the Financial Management Code to the Executive Management Team and then to Audit Committee during 2021/22. This report will include an appendix detailing the CFO's assessed level of compliance with the Code.

6. 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. Payment Card Industry Data Security Standard Accreditation
2. Information Governance
3. Financial Management Code

7. 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 31st March 2021 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:

DRAFT

Annual Governance Statement Action Plan for 2021/22

Heading	Update / Action	Responsible	Target
PCI Accreditation	<p>Work is underway on PCI accreditation in light of the recent changes to the Finance System and Telephone Payment System.</p> <p>Action: to finalise the process in relation to seeking PCI accreditation</p>	Chief Finance Officer	March 2022
Information Governance	<p>Following the review conducted by the Council's Monitoring Officer and Section 151 Officer, a new Information Governance support team was established early during 2021/22.</p> <p>Action: EMT to be regularly updated on progress made by the new team in ensuring compliance with Data Protection and GDPR.</p>	Chief Finance Officer / Executive Head Governance and Housing	March 2022
Financial Management Code	<p>Following the introduction of the CIPFA Financial Management Code, the Council's CFO will undertake an assessment of it's compliance with the code.</p> <p>Action: CFO to carry out a review and report to EMT / Audit Committee</p>	Chief Finance Officer	March 2022

DRAFT ANNUAL FINANCIAL REPORT 2020/21

1. Introduction

- 1.1 The Council's statutory Annual Financial Report, which includes 6 Statements of Account, will be presented to this Committee in December, after completion of the external audit (taking place throughout November). Prior to submission for audit, by the deadline of 31 July, it will be signed by the certified Responsible Financial (S151) Officer as complete and presenting the position of the Council, as at 31 March 2021.
- 1.2 In January 2021, the Government consulted on amendments to the Accounts and Audit Regulations 2015, to extend the deadline for publishing audited local authority accounts to 30 September from 31 July. The Government response said the deadline would be extended for two years from 2020/21 and to review at that point whether there is a continued need to have an extended deadline. These Accounts and Audit (Amendment) Regulations 2021 came into force on 31 March 2021.
- 1.3 As covered on this Committee agenda, the Council's External Auditor will explain why their audit timings do not fit with the revised dates as per the (Amended) regulations.

2. Purpose of the Report

- 2.1 This report updates Members on progress to achieve the required timetable, to advise Members of key issues in the planned report and to seek Members approval for any changes to Accounting Policies (if applicable).

3. Statement of Accounts Position

- 3.1 The Council is required to include the following accounting statements within the Annual Financial Report:
 - 1a) Comprehensive Income and Expenditure Statement
 - 1b) Expenditure and Funding Analysis (in NFDC management format)
 - 2) Movement in Reserves
 - 3) Balance Sheet
 - 4) Housing Revenue Account
 - 5a) Collection Fund – Council Tax
 - 5b) Collection Fund – Business Rates
 - 6) Cash Flow Statement
- 3.2 The draft Accounting Statements for 2020/21, prior to external audit, are set out in Appendices 1 – 6. The Expenditure and Funding Analysis Statement included as appendix 1b, is a supporting statement to the Comprehensive Income and Expenditure Statement.
- 3.3 The full Draft Unaudited Annual Financial Report will be made available on the Council's Website before the statutory deadline of 31 July 2021. Should any member of the Audit Committee wish to raise any queries on the statement before the December Committee

meeting, the contact details for the Council's Chief Financial Officer are included at the foot of this report.

4. Accounting Policy Changes and Other Key Issues

- 4.1 There has been no requirement to change any Accounting Policies for 2020/21.
- 4.2 The original budget for 2020/21 included a £1.062 million contribution to the Budget Equalisation Reserve to assist in balancing the budget over the medium term. It also included a £1.25 million budget to allow for the potential re-instatement of a secondary pension contribution rate, should the pension fund be in a deficit once the 2022 triennial revaluation takes effect. The £1.25 million has been transferred to the Capital Programme reserve, as has the overall General Fund underspend for the year. This reserve supports the delivery of the Council's Capital Programme over the Medium term period.
- 4.3 For 2020/21, the National Non Domestic Rate (NNDR or Business Rates) collection fund shows a deficit of £28.4 million. This has primarily come about as a result of the additional reliefs announced by the government in response to the pandemic. The cost of the reliefs has been fully funded by the Government through additional Section 31 grant. In accordance with collection fund accounting, the 2020/21 collection fund doesn't recognise the additional section 31 grant, and instead this is brought into consideration in 2021/22. The Council's share of the deficit is 40%. The Council's share of the additional section 31 grant is also 40%. The 2 items therefore largely cancel each other out. The Council's share of the additional Section 31 grant has been placed into a new reserve entitled 'Business Rates Reserve' to use in covering the significant proportion of the Council's share of the collection fund deficit in 2021/22.
- 4.4 Previous years' reports highlighted changes to the Business Rates Retention scheme that took place in April 2013 and the need for the Council to hold a provision for anticipated successful appeals against rating assessments. As at 1 April 2020 the total provision was £9.570 million, of which the Council's share totalled £3.828 million (40%). Table 1 confirms the movements in the provision during 2020/21, and the revised balances as at 31 March 2021:

Table 1	Total	NFDC
	£'000	£'000
Appeal Provision 1 April 2020	(9,570)	(3,828)
Additional Provisions Made 2020/21	(1,993)	(797)
Amounts Used 2020/21	4,323	1,729
Appeal Provision 31 March 2021	(7,240)	(2,896)

- 4.5 New Forest District Council has been significantly impacted by the Coronavirus COVID-19 pandemic and many of the transactions in the 2020/21 accounts are not re-occurring in the ordinary course of business. Judgements have been made throughout with the reader of the accounts in the forefront of decisions on presentation of certain items. In producing the accounts to 31 March 2021, no adjustment is necessary in terms of the accounts being produced in a manner befitting with a 'Going Concern' status.

4.6 In producing the accounts for 2020/21, the Council's wholly owned group of companies (Appletree Property Group) need to be consolidated as 'Group Accounts'. This means that transactions that took place within the Company accounts need bringing into NFDC accounts, with transactions that took place between NFDC and Appletree being largely cancelled out. The statements produced within this Agenda are the NFDC accounting statements, pre-consolidation. A further set of consolidated accounting statements will be finalised, signed, audited and published.

5. Summary of Financial Position

5.1 The Comprehensive Income and Expenditure Statement and Balance Sheet show the value of the Council's net worth to have decreased by £6.259 million during 2020/21. The value of net assets held by the Council now totals £267 million. The principal reasons and the breakdown of this year-on-year decrease between the various reserves are summarised as follows:

	£'000																	
Net Increase in PPE Assets	7,424	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: right;">9,208</td> <td>Council Dwellings</td> </tr> <tr> <td></td> <td style="text-align: right;">(663)</td> <td>Other Land and Buildings</td> </tr> <tr> <td></td> <td style="text-align: right;">(798)</td> <td>Vehicles, Plant and Equipment</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>(323)</u></td> <td>Infrastructure</td> </tr> <tr> <td></td> <td style="text-align: right;">7,424</td> <td></td> </tr> </table>		9,208	Council Dwellings		(663)	Other Land and Buildings		(798)	Vehicles, Plant and Equipment		<u>(323)</u>	Infrastructure		7,424		
	9,208		Council Dwellings															
	(663)		Other Land and Buildings															
	(798)		Vehicles, Plant and Equipment															
	<u>(323)</u>	Infrastructure																
	7,424																	
Assets Under Construction	(1,027)																	
Increase in Investment Property	2,929																	
Decrease in Long-Term Investments	(1,515)																	
Increase in Short-Term Investments	4,940																	
Increase in Long Term Debtors	1,245																	
Increase in Short-Term Debtors	5,829																	
Increase in Short-Term Creditors	(3,292)																	
Decrease in Cash and Cash Equivalents	(9,624)																	
Decrease in Long-Term Borrowing	4,301																	
Decrease in Provisions	910																	
Increase in Pensions Liability	(17,234)																	
Capital Grants - Receipts in Advance	(857)																	
Net Other	<u>(288)</u>																	
	(6,259)																	
		Usable Reserves	Unusable Reserves															
		Earmarked Reserves 12,372	4,700 Revaluation Reserve															
		Capital Programme Reserve 1,847	3,168 Capital Adjustment Account															
		Capital Receipts Reserve (959)	1,130 Financial Instruments Revaluation Reserve															
		Community Infrastructure Levy Unapplied 786	(114) Deferred Capital Receipts Reserve															
		Developers' Contributions Unapplied 361	(17,234) Pensions Reserve															
			(12,004) Collection Fund Adjustment Account															
			<u>(312)</u> Accumulating Absences Adjustment Account															
		14,407	(20,666)															

5.2 Usable reserves have increased by £14.407 million, with the majority being down to a £11.357 million contribution to the Business Rates Reserve, as explained in paragraph 4.3 above.

5.3 The 2020/21 original net budget requirement for the General Fund was £19.194 million, an increase of £1.701 million from 2019/20. The Council's budget anticipated being

funded £12.751 million from Council Tax (including a £5 increase) and £7.287 million from retained business rates. In order to support the delivery of a balanced budget over the Medium Term and to flatten out Business Rate Collection Fund adjustments, the budget allowed for £1.062 million to be credited to the Budget Equalisation Reserve.

- 5.4 Net income shortfalls and additional expenditure pressures in services during the year were £2.771 million and transfers necessary to earmarked reserves were £1.551 million more than originally budgeted. Business Rate income was below the original budget by £848,000. Government support of £6.530 million was received above the original budget. The combination of the aforementioned variations resulted in a net transfer to the Capital Programme reserve above the original plan of £1.899 million.
- 5.5 The Housing Revenue account deficit for 2020/21 was £136,000 compared with an originally budgeted break-even position. Income was £74,000 less than originally budgeted, and Repairs and Maintenance spend £330,000 higher than originally budgeted due in part to initial supply chain disruption which led to a backlog in property voids requiring additional resource to turn them around and get the properties re-tenanted. There was a reduced level of Supervision & Management expenditure in comparison to the original budget. The balance on the account as at 31 March 2021 was retained at £1 million. The budget for 2021/22 anticipates a break-even position for the year.
- 5.6 The level of approved capital expenditure is reviewed regularly throughout the year, to ensure that it is achievable within the estimated resources available. The original Capital Programme for 2020/21 (including the gross value of the Coastal Regional Monitoring Programme) was £25.694 million. This was initially supplemented by rephasings and additional projects. The final financial monitoring report for the year adjusted the budget to £27.238 million. Actual expenditure of £26.959 million (including overall financing to Appletree Property Group) was £279,000 less than the last approved budget.
- 5.7 The Council retained its investments in a variety of pooled funds in 2020/21. Total treasury management interest earnings were £0.82 million in 2020/21. The impact of the COVID-19 pandemic on financial markets at the end of the 2019/20 financial year meant that the Council's investments in its pooled funds suffered a £1.3m fall in capital value (9.82%) over the year to 31 March 2020, however the markets recovered well in 2020/21 and the value of the funds have largely returned to the original investment levels. Under the accounting standard IFRS 9 the Council must defer any fair value losses to the Financial Instruments Revaluation Reserve until at least 2023/24.
- 5.8 The Council's Balance Sheet shows a net pension liability of £116.704 million; an increase of £17.234 million from 31 March 2020. Whilst this has a substantial impact on the net worth of the Council, as recorded in the Balance Sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, as the liabilities under the scheme will be made good by increased contributions over the working lives of employees. The Pension Fund actuary completed their 3 yearly actuarial review during 2019/20, resulting in individual primary rate contribution percentage for each scheme member (at organisation level) and confirming the elimination of the fund deficit, resulting in 0% deficit contributions required for the 3 years covering 2020/21 – 2022/23. The next triennial review will take place during 2022 and will result in new contribution rates being set for 2023/24 – 2025/26.

6. Recommendations

- 6.1 That Members note the draft Accounting Statements set out in Appendices 1-6 which are a summary of the Annual Financial Report that will be certified by the Responsible Financial (S151) Officer for the submission to the external auditor by the deadline of 31 July.

For Further Information Please Contact:

Alan Bethune
Executive Head of Financial and Corporate Services
Section 151 Officer
Telephone: 023 8028 5001
E-mail: Alan.Bethune@nfdc.gov.uk

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APPENDIX 1a

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2019/20				2020/21			
Gross Expend £000	Gross Income £000	Net Expend £000		Note	Gross Expend £000	Gross Income £000	Net Expend £000
2,566	(562)	2,004	Community Affairs		2,377	(1,045)	1,332
12,996	(3,290)	9,706	Environment and Regulatory Services		15,547	(3,800)	11,747
40,250	(34,327)	5,923	Finance, Investment and Corporate Services		38,930	(34,824)	4,106
6,901	(4,573)	2,328	Housing Services		6,685	(4,651)	2,034
45	0	45	Leader and Corporate Affairs		174	0	174
9,894	(7,253)	2,641	Leisure and Wellbeing		8,552	(2,210)	6,342
837	(614)	223	Economic Development		360	(323)	37
7,489	(5,457)	2,032	Planning and Infrastructure		7,323	(4,693)	2,630
80,978	(56,076)	24,902	General Fund		79,948	(51,546)	28,402
28,492	(28,002)	490	Housing Revenue Account		24,767	(28,097)	(3,330)
109,470	(84,078)	25,392	Cost of Services		104,715	(79,643)	25,072
			Other Operating Expenditure				
6,106			Town and Parish Council Precepts		6,519		
574			Payments to the Government Housing Capital Receipts Pool		574		
	(1,365)		(Gains)/Losses on the disposal of Non-Current Assets			(1,079)	
358	(1,192)		VAT Assessment / (Refund)		0	0	
		4,481	Total Other Operating Expenditure				6,014
			Financing and Investment Income and Expenditure				
			Interest Payable and Similar Charges:				
26			- General Fund		19		
4,339			- HRA		4,245		
	(1)		Expected Credit (Gain)/Loss on Investments		3		
1,419	(27)		Changes in the fair value of Investments		45	(1,177)	
	(1,339)		Other Investment Income			(843)	
2,164			Net interest on the net defined benefit liability/(asset)	43	2,242		
	(109)		Income, expenditure and changes in the fair value of Investment Properties	12	7		
		6,472	Total Financing and Investment Income and Expenditure				4,541
			Taxation and Non-Specific Grant Income				
	(18,660)		Council Tax Income (incl. Parish precepts)			(19,339)	
	(5,514)		Non-Domestic Rates Income and Expenditure	45		(5,942)	
	(526)		Unringfenced Government Grants	45		(6,816)	
	(2,407)		Capital Grants and Contributions	45		(3,714)	
		(27,107)	Total Taxation and Non-Specific Grant Income				(35,811)
124,456	(115,218)	9,238	(Surplus)/Deficit on the Provision of Services	5	118,369	(118,553)	(184)
	(3,577)		(Surplus)/Deficit arising from the revaluation of Property, Plant and Equipment Assets			(4,833)	
1,661		(1,916)	Re-measurement of the defined benefit liability/(asset)	43	11,276		
			Other Comprehensive Income and Expenditure				6,443
		7,322	Total Comprehensive Income and Expenditure				6,259

Total Comprehensive Income and Expenditure has moved by £1.063 million between 2019/20 and 2020/21. The reasons for this are detailed in Note 6.

EXPENDITURE AND FUNDING ANALYSIS
(supporting note to the Comprehensive Income and Expenditure Statement)

	Income and Expenditure chargeable to the General Fund and HRA	Adjustments between the Funding and Accounting Basis	Net Expenditure for the equivalent amounts in the Comprehensive Income and Expenditure State
	£000	£000	£000
2020/21:			
Community Affairs	1,132	200	1,332
Environment and Regulatory Services	8,944	2,803	11,747
Finance, Investment and Corporate Services	3,249	857	4,106
Housing Services	1,686	348	2,034
Leader and Corporate Affairs	167	7	174
Leisure and Wellbeing	5,406	936	6,342
Economic Development	(20)	57	37
Planning and Infrastructure	1,755	875	2,630
General Fund	22,319	6,083	28,402
Housing Revenue Account	(7,987)	4,657	(3,330)
Cost of Services	14,332	10,740	25,072
Total Other Operating Expenditure	6,519	(505)	6,014
Total Financing and Investment Income and Expenditure	2,924	1,617	4,541
Total Taxation and Non-Specific Grant Income	(32,096)	(3,715)	(35,811)
(Surplus)/Deficit on the Provision of Services	(8,321)	8,137	(184)
Other Comprehensive Income and Expenditure	(5,898)	12,341	6,443
Total Comprehensive Income and Expenditure	(14,219)	20,478	6,259
Opening General Fund and HRA Balances	(4,000)		
Less Deficit/(Surplus) on General Fund and HRA in Year	(14,219)		
Transfer to/ (from) Earmarked Reserves	14,219		
Closing General Fund and HRA Balances	(4,000)		
2019/20:			
Community Affairs	1,857	147	2,004
Environment and Regulatory Services	8,765	941	9,706
Finance, Investment and Corporate Services	5,234	689	5,923
Housing Services	2,125	203	2,328
Leader and Corporate Affairs	43	2	45
Leisure and Wellbeing	1,144	1,497	2,641
Economic Development	(88)	311	223
Planning and Infrastructure	1,473	559	2,032
General Fund	20,553	4,349	24,902
Housing Revenue Account	(8,436)	8,926	490
Cost of Services	12,117	13,275	25,392
Total Other Operating Expenditure	5,272	(791)	4,481
Total Financing and Investment Income and Expenditure	2,938	3,534	6,472
Total Taxation and Non-Specific Grant Income	(24,701)	(2,407)	(27,108)
(Surplus)/Deficit on the Provision of Services	(4,374)	13,611	9,237
Other Comprehensive Income and Expenditure	12,336	(14,251)	(1,915)
Total Comprehensive Income and Expenditure	7,962	(640)	7,322
Opening General Fund and HRA Balances	(4,000)		
Less Deficit/(Surplus) on General Fund and HRA in Year	7,962		
Transfer to/ (from) Earmarked Reserves	(7,962)		
Closing General Fund and HRA Balances	(4,000)		

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Earmarked General Fund / HRA Reserves	Housing Revenue Account	Capital Programme Reserve	Capital Receipts Reserve	Community Infrastructure Levy Unapplied	Developers' Contributions Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000		£000	£000	£000	
Balance at 31 March 2019	(3,000)	(25,158)	(1,000)	(12,415)	(5,801)	(4,094)	(3,526)	(54,994)	(225,504)	(280,498)
<i>Movement in reserves during 2019/20</i>										
(Surplus)/deficit on the provision of services	5,772	0	3,466	0	0	0	0	9,238	0	9,238
Other comprehensive income and expenditure	0	0	0	0	0	0	0	0	(1,916)	(1,916)
Total Comprehensive Income and Expenditure	5,772	0	3,466	0	0	0	0	9,238	(1,916)	7,322
Adjustments between accounting basis and funding basis under regulations (note 8)	(3,747)	0	2,471	0	1,183	(1,118)	(721)	(1,932)	1,932	0
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	2,025	0	5,937	0	1,183	(1,118)	(721)	7,306	16	7,322
Transfers to/(from) earmarked reserves (notes 9/10)	(2,025)	5,844	(5,937)	2,118	0	0	0	0	0	0
(Increase) / Decrease in Year	0	5,844	0	2,118	1,183	(1,118)	(721)	7,306	16	7,322
Balance at 31 March 2020	(3,000)	(19,314)	(1,000)	(10,297)	(4,618)	(5,212)	(4,247)	(47,688)	(225,488)	(273,176)
<i>Movement in reserves during 2020/21</i>										
(Surplus)/deficit on the provision of services	498	0	(682)	0	0	0	0	(184)	0	(184)
Other comprehensive income and expenditure	0	0	0	0	0	0	0	0	6,443	6,443
Total Comprehensive Income and Expenditure	498	0	(682)	0	0	0	0	(184)	6,443	6,259
Adjustments between accounting basis and funding basis under regulations (note 8)	(16,060)	0	2,025	0	959	(786)	(361)	(14,223)	14,223	0
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	(15,562)	0	1,343	0	959	(786)	(361)	(14,407)	20,666	6,259
Transfers to/(from) earmarked reserves (notes 9/10)	15,562	(12,372)	(1,343)	(1,847)	0	0	0	0	0	0
(Increase) / Decrease in Year	0	(12,372)	0	(1,847)	959	(786)	(361)	(14,407)	20,666	6,259
Balance at 31 March 2021	(3,000)	(31,686)	(1,000)	(12,144)	(3,659)	(5,998)	(4,608)	(62,095)	(204,822)	(266,917)

BALANCE SHEET AS AT 31 MARCH

2019/20			2020/21		
£000	£000	Notes	£000	£000	
		Long-Term Assets			
		Property, Plant and Equipment:			
375,573		Council Dwellings	11	384,781	
68,506		Other Land and Buildings	11	67,843	
3,236		Vehicles, Plant and Equipment	11	2,438	
3,386		Infrastructure	11	3,063	
537		Community Assets	11	537	
4,312	455,550	Assets Under Construction	11	3,285	461,947
	9,454	Investment Property	12		12,383
	18,636	Long-Term Investments	14		17,121
	1,467	Long-Term Debtors	15		2,712
	485,107	Total Long-Term Assets			494,163
		Current Assets			
20,062		Short-Term Investments	16	25,002	
285		Inventories	17	267	
11,662		Short-Term Debtors	18	17,491	
(2,667)		Bad Debt Provision	18	(2,987)	
18,553		Cash and Cash Equivalents	19	8,929	
	47,895	Total Current Assets			48,702
	533,002	Total Assets			542,865
		Current Liabilities			
(4,348)		Short-Term Borrowing	20	(4,346)	
(24,055)		Short-Term Creditors	21	(27,347)	
	(28,403)	Total Current Liabilities			(31,693)
		Long-Term Liabilities			
(126,906)		Long-Term Borrowing	23	(122,605)	
(3,878)		Provisions	24	(2,968)	
(544)		Capital Grants - Receipts in Advance	25	(1,401)	
(625)		Developers' Contributions - Receipts in Advance	26	(577)	
(99,470)		Net Pensions Liability	43	(116,704)	
	(231,423)	Total Long-Term Liabilities			(244,255)
	273,176	Net Assets			266,917
		Usable Reserves			
3,000		General Fund Balance		3,000	
19,314		Earmarked Reserves	9	31,686	
1,000		Housing Revenue Account Balance		1,000	
10,297		Capital Programme Reserve	10	12,144	
4,618		Capital Receipts Reserve	27	3,659	
5,212		Community Infrastructure Levy Unapplied	28	5,998	
4,247	47,688	Developers' Contributions Unapplied	28	4,608	62,095
		Unusable Reserves			
41,864		Revaluation Reserve	29	46,564	
283,315		Capital Adjustment Account	30	286,483	
(1,219)		Financial Instruments Revaluation Reserve	31	(89)	
558		Deferred Capital Receipts Reserve	32	444	
(99,470)		Pensions Reserve	33	(116,704)	
722		Collection Fund Adjustment Account	34	(11,282)	
(282)	225,488	Accumulating Absences Adjustment Account	38	(594)	204,822
	273,176	Total Reserves			266,917

**HOUSING REVENUE ACCOUNT
INCOME AND EXPENDITURE STATEMENT**

2019/20		Notes	2020/21
£000			£000
	Income		
(26,200)	Dwelling rents		(26,360)
(769)	Non-dwelling rents		(711)
(658)	Charges for services and facilities		(654)
(375)	Contributions towards expenditure		(372)
(28,002)			(28,097)
	Expenditure		
4,804	Repairs and maintenance	3	5,022
6,535	Supervision and management		6,825
93	Rents, rates, taxes and other charges		90
16,729	Depreciation, impairment and revaluation of non-current assets	4	12,562
14	Debt Management Costs		12
171	Movement in the allowance for bad debts		108
28,346			24,621
344	Net (Income) / Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement		(3,476)
146	HRA services' share of Corporate and Democratic Core		146
490	Net (Income) / Expenditure for HRA Services		(3,330)
	HRA share of the Operating Income and Expenditure included in the whole authority Comprehensive Income and Expenditure Statement		
(1,320)	(Gain) / Loss on sale of HRA non-current assets		(1,009)
4,339	Interest payable and similar charges		4,245
(147)	Interest and investment income		(17)
405	Net interest on the net defined benefit liability / (asset)	5	441
(13)	Income and expenditure in relation to investment properties and changes in their fair value		(13)
(288)	Capital Grants and Contributions Receivable		(1,000)
3,466	(Surplus) or Deficit for the year on HRA services		(682)

COLLECTION FUND

The Collection Fund is an agent's statement that shows the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution of the income to local authorities and the Government. While there is only one Collection Fund, separate statements are shown for council tax and non-domestic rates due to the complexity of non-domestic rates transactions following the introduction of the Retention Scheme in 2013/14.

COLLECTION FUND – COUNCIL TAX

The Council collects council tax for its own spending needs and on behalf of Hampshire County Council, Police and Crime Commissioner for Hampshire, Hampshire Fire and Rescue Authority and local town and parish councils.

2019/20			2020/21	
£000	£000		£000	£000
	(127,318)	Income		
		Income from Council Tax		(131,839)
		Transfers to / (from) General Fund:		
0		Hardship Relief	(699)	
(73)	(73)	Family Annex Relief	(71)	(770)
	(127,391)	Total Income		(132,609)
		Expenditure		
		Precepts:		
87,910		Hampshire County Council	91,960	
14,319		Police and Crime Commissioner for Hampshire	15,118	
4,812		Hampshire Fire And Rescue Authority	4,937	
18,428	125,469	New Forest District Council (including town and parish council requirements)	19,271	131,286
		Bad and Doubtful Debts		
177		Write-offs	261	
168	345	Increase / (decrease) in provisions	546	807
		Contributions:		
	1,494	Previous year's estimated council tax surplus		1,485
	127,308	Total Expenditure		133,578
	(83)	Movement on fund balance		969
	(1,452)	(Surplus) / Deficit at 1 April		(1,535)
	(83)	Movement on fund balance for year		969
	(1,535)	(Surplus) / Deficit at 31 March		(566)

COLLECTION FUND

COLLECTION FUND – BUSINESS RATES

The Council collects business rates for its own spending needs and on behalf of the Government, Hampshire County Council and Hampshire Fire and Rescue Authority.

2019/20			2020/21	
£000	£000		£000	£000
		Income		
	(68,635)	Income collectable from Business Ratepayers Current System		(40,348)
	1,015	Transitional Protection Payments		316
	(67,620)	Total Income		(40,032)
		Expenditure		
33,097		Payments to DCLG - Business Rates Retention	34,462	
26,478		New Forest District Council	27,569	
5,958		Hampshire County Council	6,203	
662		Hampshire Fire And Rescue Authority	689	
276		Costs of Collection	275	
10		NFDC - Renewable Energy Schemes	11	
	66,481			69,209
		Bad and Doubtful Debts		
245		Write-offs	168	
28		Increase / (decrease) in provisions	391	
(404)		Appeals Provision	(2,330)	
	(131)			(1,771)
	415	Contributions: Previous year's estimated business rates deficit		2,229
	66,765	Total Expenditure		69,667
	(855)	Movement on fund balance		29,635
	(387)	(Surplus) / Deficit at 1 April		(1,242)
	(855)	Movement on fund balance for year		29,635
	(1,242)	(Surplus) / Deficit at 31 March		28,393

CASH FLOW STATEMENT

2019/20		Notes	2020/21
£000			£000
9,238	Net (surplus) or deficit on the provision of services		(184)
(28,858)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	35	(22,371)
3,169	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	35	2,165
(16,451)	Net cash flows from Operating Activities		(20,390)
1,735	Investing Activities	36	20,685
2,037	Financing Activities	37	9,329
(12,679)	Net (increase) or decrease in cash and cash equivalents		9,624
(5,874)	Cash and cash equivalents at the beginning of the reporting period		(18,553)
(18,553)	Cash and cash equivalents at the end of the reporting period	19	(8,929)



New Forest District
Council
Audit planning report
Year ended 31 March 2021

June 2021



Members of the Audit Committee
New Forest District Council
Appletree Court
Beaulieu Road
Lyndhurst
SO43 7PA

22nd June 2021

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

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

We welcome the opportunity to discuss this report with you on 2nd July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

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06	Audit team	07	Audit timeline	08	Independence	09	Appendices		

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

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



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Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

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

Audit risks and areas of focus

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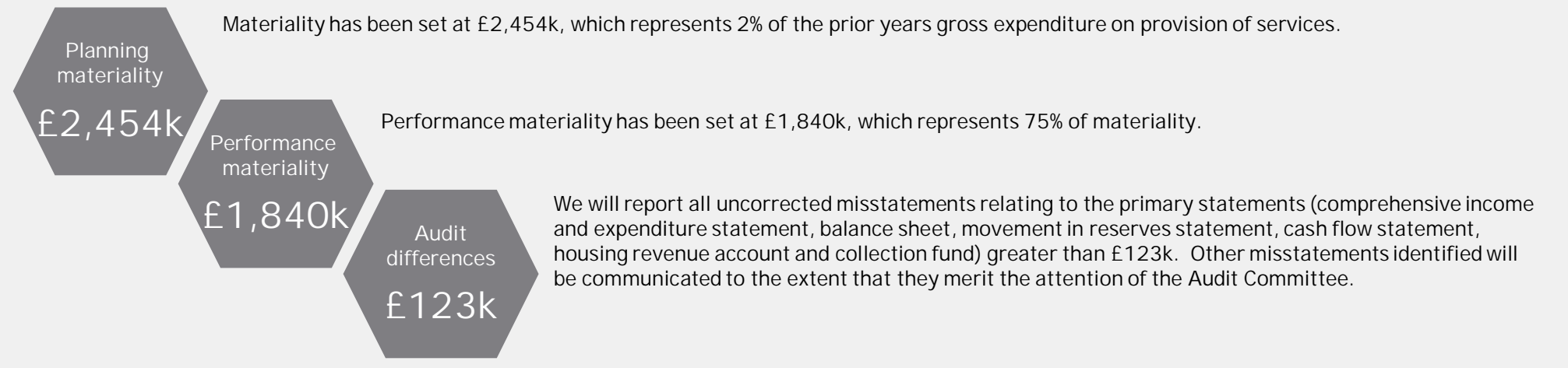
Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Risk of fraud in revenue recognition – inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition.</p> <p>In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.</p>
Valuation of Land and Buildings Inc. Investment Properties (FV/EUV)	Significant risk	No change in risk or focus	<p>Property, Plant and Equipment Land and Buildings (L&B) measured at Fair Value or Existing Use Value (EUV) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>
New Financial Ledger	Significant risk	New Area of Focus	<p>Under ISA 315, a change in the IT environment may indicate a risk of material misstatement.</p> <p>From the 1/4/2020 the Council introduced its new financial management system. Data was migrated over to the new system and the Council's 2020/21 financial statements will be prepared using data taken from the new system.</p>

Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Compensation Scheme for Sales, Fees and Charges	Fraud Risk	New Area of Focus	As one of the responses to the Covid-19 pandemic and its impact on Local Authority finances, the Government introduced a reimbursement scheme for lost fees and charges income. After an initial 5% reduction for annual variability, local authorities are funded for 75% of their claimed losses. There is both incentive and opportunity for local authorities to inflate the returns to Central Government, and claim for funds that they are not entitled to under the scheme. There is also the potential for error.
Valuation of Land and Buildings (DRC)	Inherent risk	No change in risk or focus.	Land and Buildings valued using Depreciated Replacement Cost (DRC) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Valuation of Council Dwellings	Inherent risk	No change in risk or focus	The fair value of Council Dwellings represents a significant balance in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation	Inherent risk	No change in risk or focus.	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Accounting for Covid-19 Related Grant Income	Inherent Risk	New Area of Focus	The Council has received a significant level of government funding in relation to Covid-19. There is a need for the Council to ensure that it has recognised and accounted for these grants appropriately, taking into account any associated restrictions and conditions.
Accounting for the Furlough Scheme	Inherent Risk	New Area of Focus	The Council furloughed a number of leisure centre staff during the year. There is a need for the Council to ensure that it has recognised and accounted for furlough scheme income appropriately, taking into account any associated restrictions and conditions.

Overview of our 2020/21 audit strategy

Materiality



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Group Accounting

We understand that the Council will be producing group accounts for the first time this year. We currently have insufficient information to be able to assess the full impact on our scope, including on materiality at the group level.

We anticipate undertaking a direct testing approach on the material balances of the Council's consolidated subsidiary, and will also need to undertake procedures to ensure the correct consolidation.

We will provide an update to the Audit Committee when we are able to more completely understand the impact on our audit and on our audit approach.

Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of New Forest District Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our commentary on the Council's arrangements to secure value for money.

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

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

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

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

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

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery as per Section 7 of this plan.

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

We have therefore agreed with the Council that our year-end execution work will take place in November 2021.



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02 Audit risks



Our response to significant risks

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

<p>Misstatements due to fraud or error*</p>	<p>What is the risk?</p> <p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>What will we do?</p> <ul style="list-style-type: none"> • Inquiry of management about risks of fraud and the controls put in place to address those risks. • Understanding the oversight given by those charged with governance of management's processes over fraud. • Consideration of the effectiveness of management's controls designed to address the risk of fraud. <p>Performing mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul style="list-style-type: none"> • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Assessing accounting estimates for evidence of management bias, and • Evaluating the business rationale for significant unusual transactions. <p>In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.</p>
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Our response to significant risks (continued)

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

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<p>Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure*</p>	<p>What is the risk?</p>	<p>What will we do?</p>
<p>Financial statement impact</p> <p>Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.</p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>From our risk assessment, we have assess that the risk manifest itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.</p> <p>Capitalised revenue expenditure could then be inappropriately funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, it could also inappropriately be funded by capital receipts or grants, that should not be used to support revenue.</p> <p>Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, removing the spend incorrectly from the general fund through applying statutory overrides.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> • For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that will support these additions. We review the sample selected against the definition of capital expenditure in IAS 16. • Reviewing the appropriateness of items classified as REFCUS. • We will extend our testing capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold. • Journal testing – we will use our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised or reclassified as REFCUS.

Our response to significant risks (continued)

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

	What is the risk?	What will we do?
<p>Valuation of Land and Buildings (FV/EUV) and Investment Properties</p>	<p>Property, Plant and Equipment land and buildings (L&B) measured at Fair Value or Existing Use Value (EUV) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Consider the competence, capability and objectivity of the Council's valuers; • Consider the scope of valuers' work; • Ensure Property has been revalued with sufficient frequent not to be materially misstated as required by the Code; • Consider if there are any specific changes to assets that should have been communicated to the valuer(s); • Sample test key inputs used by the valuer(s) when producing valuations; • Consider the results of the valuers' work; • Test a sample of assets revalued in year to: <ul style="list-style-type: none"> • Challenge the assumptions used by the Council's valuers by reference to external evidence and our EY valuation specialists (where necessary); • Test journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements; • Review assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated.
<p>Financial statement impact</p> <p>If land and buildings or investment property are incorrectly valued this could have the impact of understating expenditure</p>	<p>As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p> <p>The risk is heightened for assets that may have been impacted by the Covid-19 pandemic, such as traditional retail assets, commercial property or other sectors impacted by the lockdown restrictions and their impact on the economy.</p>	

Our response to significant risks (continued)

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

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<p>New Financial Ledger</p>	<p>What is the risk?</p> <p>Under ISA 315, a change in the IT environment may indicate a risk of material misstatement.</p> <p>From the 1/4/2020 the Council introduced its new financial management system. Data was migrated over to the new system and the Council's 2020/21 financial statements will be prepared using data taken from the new system.</p> <p>We therefore consider there to be a significant risk that the financial statements could be materially misstated if data has not been appropriately transferred from the old system to the new.</p>	<p>What will we do?</p> <p>We will:</p> <ul style="list-style-type: none"> • Perform testing on the opening balances within the new GL, agreeing them to the closing balances of the old system. • Review any reconciliations that have been performed between the old and the new system by the client. • Review the work performed by internal audit relating to the system changeover. • Review the new system to confirm whether it improves accounting practices and reduces the overall likelihood of material misstatements including: <ul style="list-style-type: none"> • Review the system code mapping compared to the prior year • Review the training provided to users of the system
<p>Financial statement impact</p> <p>If data has not been transferred appropriately over to the new ledger, the financial statements as a whole may be materially misstated.</p>		

Our response to significant risks (continued)

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

	What is the risk?	What will we do?
<p>Risk of fraud in revenue and expenditure recognition – Compensation Scheme for Lost Sales Fees and Charges*</p>	<p>As one of the responses to the Covid-19 pandemic and its impact on Local Authority finances, the Government introduced a reimbursement scheme for lost fees and charges income. After an initial 5% reduction for annual variability, local authorities are funded for 75% of their claimed losses. There is both incentive and opportunity for local authorities to inflate the returns to Central Government, and claim for funds that they are not entitled to under the scheme. There is also the potential for error.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> • Gain an understanding of the Council's process for completing the grant return to Central Government. • Assess whether those returns appropriately follow the guidance. • Confirm whether the return is supported by relevant and appropriate evidence.
<p>Financial statement impact</p> <p>Inappropriate grant recognition would decrease the net expenditure from the general fund</p>	<p>The Council received £1.4m in the 1st payment grant, and therefore, there is the potential this could be materially overstated for the full year's grant.</p>	<ul style="list-style-type: none"> • Ensure the grant is appropriately accounted for.

Audit risks

Other areas of audit focus

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

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What is the risk/area of focus?	What will we do?
<p>Valuation of Land and Buildings (DRC)</p> <p>Land and Buildings valued at Depreciated Replacement Cost (DRC) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>Assets valued at DRC are not as significantly affected by Covid-19 as those assets valued at fair value or existing use value, but there is still a high level of judgement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; • Consider changes to useful economic lives as a result of the most recent valuation; and • Test accounting entries have been correctly processed in the financial statements,
<p>Valuation of Council Dwellings</p> <p>As with Land and Buildings, the value of Council Dwellings in the Council's accounts are subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the application of the Beacon Methodology; and • Test accounting entries have been correctly processed in the financial statements.

Audit risks

Other areas of audit focus

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

What is the risk/area of focus?	What will we do?
<p>Pension Liability Valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £99,470k.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to New Forest District Council; • Assess the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus

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

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What is the risk/area of focus?	What will we do?
<p>New central government grants and other Covid-19 funding streams</p> <p>Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.</p> <p>The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.</p>	<p>On a sample of the grant and funding population we will:</p> <ul style="list-style-type: none"> • Review the Council's decision for new grant or funding arrangements whether it is acting as principal or agent; • Review whether any initial conditions are attached to grants impacting their recognition; and • Assess whether the accounting appropriately follows those judgements. • Check the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.
<p>Furlough Scheme</p> <p>The Government announced the Coronavirus Job Retention Scheme (CJRS) on 20 March 2020 and opened this to claims on 20 April 2020 in response to the COVID-19 pandemic. During 2020/21, the legislation and associated guidance relating to the scheme has changed and therefore the amount of income will vary dependent on the claim periods. These changes as well as the inherent complexity of the scheme increases the likelihood of misstatement.</p> <p>In the UK, the government has not imposed any additional audit or assurance requirements in relation to government support schemes. We do, however, have existing responsibilities in relation to fraud and non-compliance with laws and regulations, which would apply to the furlough scheme.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Obtain copies of the company's furlough claim submissions and the calculations supporting the claims and whether any specialists have been involved in preparation of the claim • Understand where the data used within the furlough claims comes from • Confirm the employees were eligible for furlough • Create an expectation of what we believe the furlough figure should be in the accounts and compare this to the actual figure



03

Value for Money Risks





Value for Money

The Council's responsibility for value for money

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

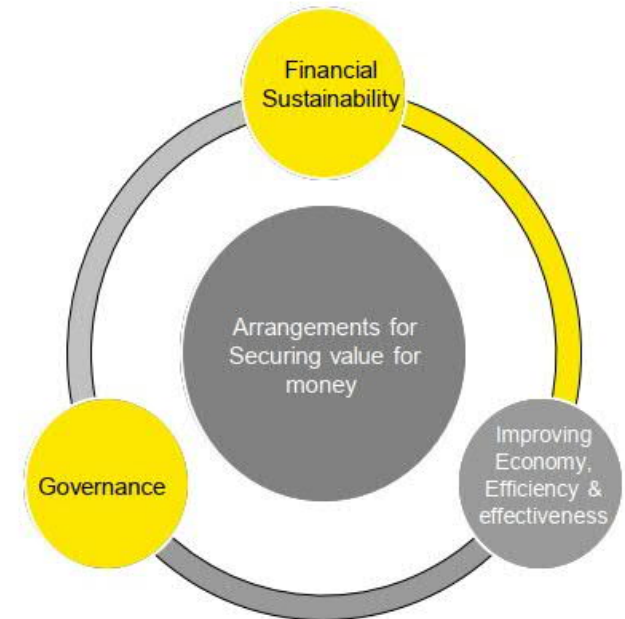
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its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

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there are no longer overall evaluation criteria on which we need to conclude. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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





Planning and Identifying VFM Risks

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

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

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

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

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

We should also be informed by a consideration of:

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



Responding to Identified Risks

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

Reporting on VFM

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

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

Status of our 20/21 VFM Planning

We have yet to complete our detailed VFM planning, but have not identified any significant VFM risks at this point in time. If we identify a significant risk, we will bring this to the attention of the Audit Committee



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Audit materiality

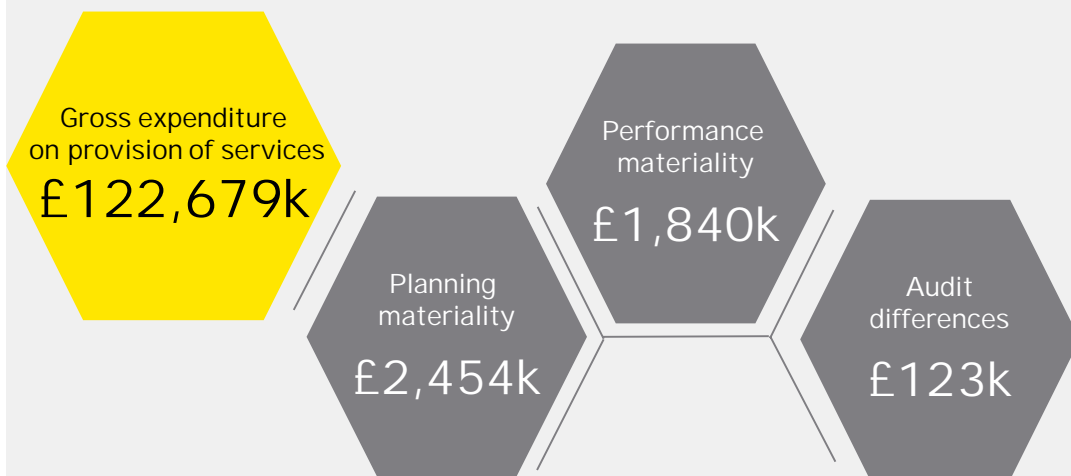


Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £2,454k. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process, and updated based on the draft 2020/21 accounts.

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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1,840k which represents 75% of planning materiality.

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

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



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

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

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

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

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

Analytics:

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

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

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

Internal audit:

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



06

Audit team



Audit Team and Use of specialists

The Core Audit Team is led by Kevin Suter, Associate Partner and James Stuttaford, Audit Manager.

Use of Specialists

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

Area	Specialists
Valuation of Land and Buildings	Authority's internal valuer (Stuart Yeo) EY Specialist - EY Real Estates (EYRE)
Pensions disclosure	Management Specialist - AoN Hewitt PwC (Consulting Actuary to the NAO) EY Specialist - EY actuaries

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

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

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



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07 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

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

On 3rd June 2021 Janet Dawson, GPS Assurance Leader, communicated to all Audit Committee Chairs on the resourcing and rescheduling of our Local Government Clients. Locally, we have been in contact with the S151 Officer to confirm how this impacts on the year end audit visit. We have agreed to reschedule our visit from July to November 2021, with the audit opinion expected to be delivered in December. We thank the finance team for their flexibility in agreeing to the rescheduling.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	March		
Walkthrough of key systems and processes Interim audit testing	April		
Walkthrough of key systems and processes	May		
	June		
	July	Audit Committee	Audit Planning Report
	Summer/Autumn		
Year end audit Audit Completion procedures	November		
	December	Audit Committee	Audit Results Report Audit opinions and completion certificates Auditor's Annual Report

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Independence



Introduction

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

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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

At the time of writing, we have not undertaken any non-audit work, therefore, no additional safeguards are required.

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

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

Self review threats

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

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

Management threats

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

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

Relationships, services and related threats and safeguards

Other threats

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

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

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2020 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



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Appendices



Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2020/21 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee	42,721	42,721	42,721
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (1)	19,543		19,543
Revised Proposed Scale Fee	62,624	42,721	62,624
Scale Fee Variation (2, 3)	TBC	0	10,881
Total Audit Fee	TBC	42,721	73,145
Total other non-audit services	0	0	0
Total fees	TBC	42,721	73,145

All fees exclude VAT

(1) As detailed in our 2019/20 annual audit letter we have submitted a proposed rebasing of the scale fee. PSAA are yet to conclude on the rebasing.

(2) As detailed in our 2019/20 annual audit letter we have submitted the 19/20 scale fee variation to the PSAA. This is still subject to agreement with the PSAA.

(3) As noted in the main section of this report we have identified new risks for 20/21, as well as the changing requirements on VfM reporting. The scope will also change if the Council undertakes group accounting. These changes will impact on the cost of delivering the 20/21 audit. We are unable to quantify the impact at this time.

The agreed fee presented is based on the following assumptions:

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

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

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




Appendix B

Required communications with the Audit Committee

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





Our Reporting to you


Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report




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Required communications with the Audit Committee (continued)

Required communications	 What is reported?	 When and where
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report Audit Results Report
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report

Required communications with the Audit Committee (continued)

 Our Reporting to you

Required communications	 What is reported?	  When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> • Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit planning report Audit results report

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

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Audit Committee Work Plan 2021/22

DATE	WORK / REPORTS
2 July 2021	Treasury Management Outturn Report 2021 Local Code of Good Governance Review Draft Annual Governance Statement 2021 Draft Annual Financial Report 2021 Final Accounts Bad Debts Write-off Procurement Waivers 2020/21 Fraud Report 2020/21 Internal Audit Report and Opinion Report 2020/21
10 Sept 2021	MEETING DATE NO LONGER REQUIRED
29 Oct 2021	Internal Audit Progress Report 2021/22 Internal Audit External Quality Assessment 2021 Treasury Management Monitoring Report 2022 Information on the Redmond Review Overview of Workflow and Approval Levels Money Laundering Policy Whistleblowing Policy Fraud Strategy
17 Dec 2021	NEW DATE REQUIRED Audit Results Report 2021 Audit opinions and completion certificates Auditor's Annual Report Final Annual Governance Statement 2021 Final Annual Financial Report 2021 Housing Benefit Audit Results Report
28 Jan 2022	Annual Audit Letter for the year ended 31 March 2021 Internal Audit Progress Report 2021/22 Treasury Management Strategy 2022/23 Investment Strategy 2022/23 Risk Management and Insurance Update Regulation of Investigatory Powers Act 2000 (RIPA)

25	Internal Audit Progress Report 2021/22
March	Internal Audit Charter 2022/23
2022	Internal Audit Plan 2022/23
	Annual Financial Report and External Audit Cycle 2021/22 and 2022/23
