

NOTICE OF MEETING

Meeting: AUDIT COMMITTEE

Date and Time: FRIDAY, 22 MARCH 2024, AT 9.30 AM

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

Enquiries to: E-mail: andy.rogers@nfdc.gov.uk
Tel: 023 8028 5070

PUBLIC PARTICIPATION:

Members of the public may watch this meeting live on the [Council's website](#).

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

- (a) on items within the Audit Committee's terms of reference which are not on the public agenda, when the Chairman calls the public participation item; 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, 19 March 2024.

Kate Ryan
Chief Executive

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

This agenda can be viewed online (<https://democracy.newforest.gov.uk>).

It can also be made available on audio tape, in Braille and large print.

AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meeting held on 26 January 2024 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 receive any public participation in accordance with the Council's public participation scheme.

4. HOUSING BENEFIT ASSURANCE TESTING 2022/23

To receive a presentation on the Housing Benefit Assurance testing for 2022/23.

5. EXTERNAL AUDIT UPDATE (Pages 3 - 20)

To receive the External Audit Update.

6. EXTERNAL AUDIT VALUE FOR MONEY REPORT 2022/23 (Pages 21 - 52)

To receive the External Audit Value for Money Report for 2022/23.

7. INTERNAL AUDIT PROGRESS REPORT 23/24 (Pages 53 - 66)

To receive the Internal Audit Progress Report for 2023/24.

8. INTERNAL AUDIT CHARTER 2024/25 (Pages 67 - 78)

To receive the Internal Audit Charter for 2024/25.

9. INTERNAL AUDIT PLAN 2024/25 (Pages 79 - 90)

To receive the Internal Audit Plan for 2024/25.

10. REVIEW OF FINANCIAL REGULATIONS (Pages 91 - 96)

To consider the results of a recent review of Financial Regulations together with related recommendations.

11. PAYMENT CARD INDUSTRY DATA SECURITY STANDARD (PCI DSS) - UPDATE (Pages 97 - 100)

To receive a progress update on compliance with the Payment Card Industry Data Security Standard (PCI DSS).

12. HOUSING MAINTENANCE FRAUD MATTER (Pages 101 - 108)

To receive an update on a Housing Maintenance Fraud matter.

13. AUDIT COMMITTEE WORK PLAN (Pages 109 - 112)

To consider the Audit Committee's Work Plan.

Members are requested to reserve the date of 27 September 2024, (which may replace the scheduled 25 October meeting date), to accommodate External Audit and other reports. This will be confirmed later in the year.

14. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

To:

Councillors

Alan Alvey (Chairman)
Matthew Hartmann (Vice-
Chairman)
Keith Craze
Jack Davies
Jacqui England

Councillors

Neil Millington
Alan O'Sullivan
Richard Young
Caroline Rackham

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New Forest District Council

External Audit Update

March 2024

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Building a better
working world

Agenda Item 5



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

11 March 2024

Dear Audit Committee Members

External Audit Update

The purpose of this report is to provide the Audit Committee with an overview of the current status of the Council's audit 2022/23 and our plans for the 2023/24 year. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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

Yours faithfully,

Simon Mathers

For and on behalf of Ernst & Young LLP

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02 Overview of our 2023/24 audit strategy



03 Audit Timeline



04 Audit Fees



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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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


This report is made solely to the Audit Committee and management of New Forest District Council. 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.



01

Progress Update – 2022/23 and 2023/24 audits





Context for the 2022/23 and 2023/24 audits

Context for the 2022/23 and 2023/24 audits – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited accounts by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024. Subject to the results of consultation, backstop dates have also been proposed for the following five financial years as follows:

2023/24 – 31 May 2025.

2024/25 – 31 March 2026.

2025/26 – 31 January 2027.

2026/27 – 30 November 2027.


2027/28 – 30 November 2028.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using the above backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- DLUHC has launched consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic accounts and for the financial years 2023/24 to 2027/28.
- The National Audit Office (NAO) has launched consultation on amending the Code of Audit Practice to :
 - Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
 - Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.
- The Chartered Institute of Public Finance and Accountancy (CIPFA) has launched a consultation on temporary changes to the accounting code for preparation of the accounts. The proposed temporary changes to the financial reporting framework have an impact on both how the accounts are prepared and our audit procedures necessary to gain assurance.



Context for the 2022/23 and 2023/24 audits

Context for the 2022/23 and 2023/24 audits – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays (continued)

Impact on 2022/23 and 2023/24 financial statements audits

To allow for timely reset of the audit of the Council we have focused our resources on discharging our value for money reporting requirements for 2022/23 and planning the 2023/24 audit. As a result of the likely backstop date and our decision to prioritise 2023/24 work to allow for a reset we expect to disclaim the opinion on the Council's 2022/23 accounts. Our proposed disclaimer of the Council's 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase.

The changes proposed by the consultations therefore have a significant on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer

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Responsibilities of Council management and those charged with governance

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Council's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Council resources are readily available to support the audit process, within agreed deadlines. The Audit and Resources Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done, we will:

- Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- Consider the use of other statutory reporting powers to draw attention to weaknesses in Council financial reporting arrangements where we consider it necessary to do so.
- Seek a fee variation for the cost of additional resources needed to discharge our responsibilities. We have set out this and other factors that will lead to a fee variation in Section 04 of this report. We also include paragraphs 26-28 of PSAA's Statement of Responsibilities, which clearly set out what is expected of audited bodies in preparing their financial statements, in full at Section 03 of this report.



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02 Overview of our 2023/24 audit strategy

Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters we expect to include within our Audit Planning 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


Risk/area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed that this risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of investment property land and buildings – valued at Fair Value (FV)	Significant risk	No change in risk or focus	The valuation of investment properties represent a material figure within the Council's financial statements. The valuation of those assets valued on a FV basis is reliant upon expert valuations based on information provided by the Council, which includes a number of judgements and assumptions. Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements. Based on initial planning discussions we consider this likely to be a significant risk in our audit approach. We will further consider this designation as part of our full audit planning procedures.
Valuation of property, plant and equipment (PPE) land and buildings – valued at Depreciated Replacement Cost (DRC)	Inherent Risk	No change in risk or focus.	Land and Buildings valued at 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. Based on initial planning discussions we consider this likely to be a higher inherent risk in our audit approach. We will further consider this designation as part of our full audit planning procedures.

Overview of our 2023/24 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

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of PPE land and buildings – valued at Existing Use Value (EUV)	Inherent Risk	No change in risk or focus.	<p>PPE land and buildings measured at EUV 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 EUV balances held in the balance sheet. As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher inherent risk that EUV assets may be under/overstated or the associated accounting entries incorrectly posted.</p> <p>Based on initial planning discussions we consider this likely to be a higher inherent risk in our audit approach. We will further consider this designation as part of our full audit planning procedures.</p>
Valuation of Council Dwellings	Inherent risk	No change in risk or focus	<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>Based on initial planning discussions we consider this likely to be a higher inherent risk in our audit approach. We will further consider this designation as part of our full audit planning procedures.</p>
Pension Liability/Asset Valuation	Inherent risk	No change in risk or focus	<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.</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 the management experts and assumptions underlying fair value estimates.</p>



Overview of our 2023/24 audit strategy

Audit scope

We plan to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period.

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

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

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

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

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

Taking the above into account, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". Therefore to the extent any of these or any other risks are relevant in the context of the Council's audit, and we will continue to discuss these with management as to the impact on the scale fee.

Audit process and strategy

Audit scope (cont'd)

Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

The changes proposed by the consultations are likely to have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit Committee as the audit progresses and our assessment on the required scope and nature of procedures we will undertake becomes clearer. As examples:

- ▶ Where prior year audit opinions are modified work will be required to gain assurance, where possible, on opening balances over the period of the recovery phase (phase 2). Where we are unable to gain assurance over opening balances, we anticipate that this may lead to limitation of scope of our audit over those balances.
- ▶ Where prior year audit opinions are modified, and particularly where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase.
- ▶ Changes to the Code of Audit Practice on Local Authority Accounting will potentially impact on our assessment of audit risk generally, risks associated with significant accounting estimates, such as the valuation of operational property, plant and equipment and the related need to rely on management's and auditor's specialists.

New Forest District Council - Overview of our 2023/24 audit strategy

Value for Money

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

Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to prepare a commentary under three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council's arrangements against three reporting criteria:

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

The commentary on the Council's value for money arrangements will be included in the Auditor's Annual Report.

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Key Audit Partner and senior audit team



Simon Mathers - Partner

Simon is the new partner leading the 2023/24 audit of the Council from our Southampton Office. He has over 20 years experience in the delivery of Local Government audits covering district and borough councils, county councils, London boroughs and pension funds.



Katie Lean - Manager

Katie, who is also based in our Southampton Office, has experience in the delivery of Local Government audits covering both lower and upper tier authorities.



A close-up photograph of a person's hand holding a silver stylus, pointing at a tablet. The tablet displays a bar chart with several bars of varying heights and colors (green, yellow, orange, red). The background is dark and out of focus.

03 Audit Timeline



Audit Timeline

Timeline

Delivery to our proposed timeline is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies.

See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>.

In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- assign responsibilities clearly to staff with the appropriate expertise and experience;
- provide necessary resources to enable delivery of the plan;
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

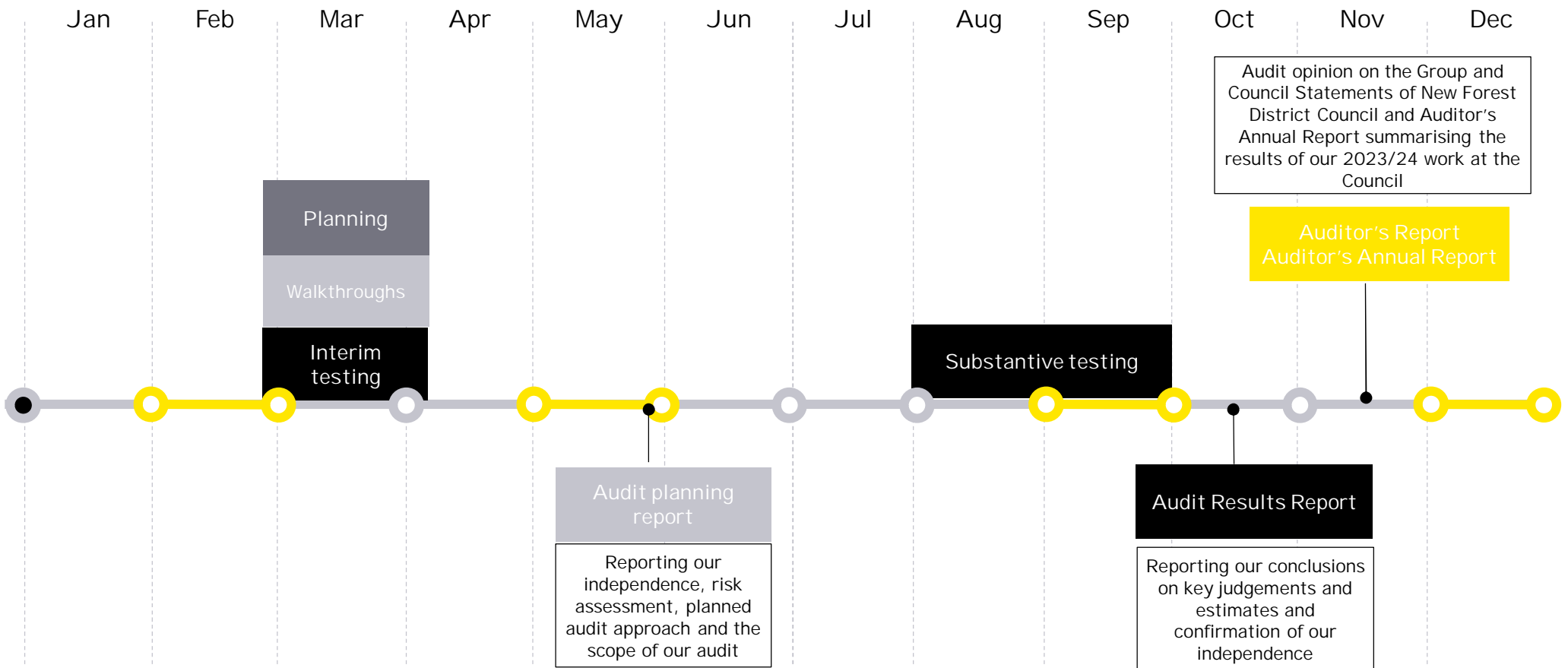
Timetable of communication and deliverables

Indicative Timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

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.

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04 Audit Fees

Audit Fees

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

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

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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 Council;
- ▶ The Council has an effective control environment; and
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full section 3 of this report.

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

	2023/24	2022/23	2021/22
	£	£	£
Total Fee – Scale Fee (after rebasing)	165,261	57,121	67,150
Scale fee adjustment	TBC – Note 3	TBC – Note 2	TBC - Note 1
Total audit fees	TBC	TBC	TBC

All fees exclude VAT

(1) As reported in our 2021/22 Audit Results Report, we submitted a proposal to PSAA for rebasing of the 2021/22 scale fee and for scale fee variations. We expect to submit a scale fee variation to cover:

- The need to engage EY Real Estate to review a number of PPE/IP assets.
- The need to engage EY Pensions to review assumptions used in the Pensions IAS19 liability.
- Work to review the portfolio heading changes prior year restatements.
- Additional work undertaken on aspects of housing benefit income and expenditure which would previously have been performed as part of HB certification and additional work performed in relation to Pension Fund IAS 19 data submission procedures undertaken for admitted bodies. Value £1,182

We have yet to agree our proposed scale fee variation with the Council or submit this to PSAA for determination.

(2) The 2022/23 audit fee will be adjusted to reflect the work completed in respect of our Value for Money Conclusion and the disclaimed opinion.

(3) The revision to ISA (UK) 315 will impact on our scope and approach, and require us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements. We expect to charge addition fee for this. The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:

- Consideration of correspondence from the public and formal objections.
- New accounting standards, for example full adoption or additional disclosures in respect of IFRS 16.
- Non-compliance with law and regulation with an impact on the financial statements.
- VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
- The need to exercise auditor statutory powers.
- Prior period adjustments.
- Modified financial statement opinions

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New Forest District
Council

Value for Money report

Year ended 31 March 2023

March 2024



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

11th March 2024

Dear Audit Committee Members
2022/23 Value for Money Report

We are pleased to attach our interim Value for Money report for New Forest District Council. The report summarises the findings from our 2022/23 value for money work. The report sets out the risks identified and the findings from our detailed assessment including a commentary on the three reporting criteria and a summary of the arrangements in place.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 22nd March 2024.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Encl

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01 Executive Summary



02 Value for Money Commentary



03 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 July 2021)” 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 Members 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 Audit Committee Members 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 Audit Committee Members 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.



BOARDROOM



01 Executive Summary



Executive Summary

Purpose


The purpose of the report is to set out the Value for Money (VFM) work undertaken up to and including the 2022/23 financial year. The report aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03).

The report sets out the following areas which have been assessed up to the point of issuing this interim report to the Audit Committee:

- Risks of significant weakness and procedures planned to mitigate these
- Findings of our work against the three value for money reporting criteria and the sub-criteria
- Summary of arrangements in place over the period covered by this report.

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report once the audit report has been issued for 2022/23.



Executive Summary (continued)

Risks of Significant Weakness

Our value for money procedures are based on the judgements reached from a combination of:

- our cumulative audit knowledge and experience
- our review of Council committee reports,
- meetings with the Strategic Director Corporate Resources & Transformation (S151), and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any risks of significant weaknesses during the course of our audit. As a result, we have no matters to report by exception in this report

Executive Summary (continued)

Reporting


Our commentary for 2022/23 is set out over pages 10 to 13. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see table below) throughout 2022/23.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Annual Auditors Report and have been updated for 2022/23.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
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	No significant risks identified	No significant weakness identified

Within our 2021/22 Audit Results Report, we included further findings and recommendations relating to the audit of the 2021/22 financial statements. We further highlight these within this report as set out in Appendix B.



Executive Summary (continued)

Independence

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

There are no relationships from 1st April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



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02 Value for Money Commentary

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified

We identified no risks for the Council's financial sustainability arrangements in our VFM planning.

Within the 2022/23 Budget and Medium Term Financial Plan, the Council set a balanced budget for 2022/23. However, in future years through to 2025/26, the MTFP shows additional budget shortfalls totalling £1.895m. This is split as:

- £312k for 2023/24
- £535k for 2024/25
- £1.895m for 2025/26

The future gaps are expected to be mitigated through various options including commercial and residential property strategies, delivery and transformation programmes, additional income from local taxation and prudent use of budget equalisation reserves.

These options have therefore resulted in headroom to support capital expenditure of the following:

- £297k for the 2023/24 period
- £940k for the 2024/25 period
- £199k for the 2025/26 period

The 2023/24 Budget and Medium Term financial Plan has also set a balanced budget for 2023/24, however, there remains budgeted shortfalls totalling £1.324m through to 2026/27. This is split as:

- £699k for 2024/25
- £320k for 2025/26
- £1.324m for 2026/27

These shortfalls are forecast to be addressed in a similar manner to those identified in the 2022/23 medium term financial plan, and have resulted the following:

- A use of equalisation reserves of £116k for the 2024/25 period.
- Headroom to support capital of £846k for the 2025/26 period.
- Headroom to support capital of £176k for the 2026/27 period.

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified

The Council has a budget equalization reserve which is available to offset any shortfall and balance the budget. This is contained within the Council's General Fund earmarked reserves of £18.652m at 31/03/2023 and therefore, is sufficient to cover any shortfall.

There are acknowledged uncertainties to the medium term forecast, for example those associated with its developing Waste Strategy, the Solent Freeport, and annual pay awards which is consistent with the Council's risk register.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

No significant weakness identified

We identified no risks for the Council's governance arrangements in our VFM planning.

The Council has an effective strategic risk management framework and register in place to identify, mitigate and monitor the risks to the organisation in delivering strategic objectives. This includes both financial and non-financial risks.

This is supported by the Strategic Risk Management Policy and a Strategic Risk Register with updates to the risk register being discussed in Cabinet meetings.

There is also an internal audit function which provides an interim report and a year-end report. We have obtained the report from internal audit at year end which reported 4 limited assurance reviews relating to:

- Use of Agency Staff
- IT Asset Management
- Open Spaces - Safety Checks
- Engineering Works

The Council has processes in place to ensure that actions are appropriately identified and addressed.

In 2022/23, New Forest District Council achieved a Net General Fund Requirement of £20.107m compared to budget of £20.674m which is a favourable outturn position and constituted a £56k overspend at Service Portfolio level offset by additional interest earnings of £893k. The budgeted capital spend for the year was £17.174m however, additional capital spend was incurred, including on projects carried over from 2021/22, resulting in an actual capital spend of £21.641m.

The Housing Revenue Account set a budget of a net income position of £8.920m and achieved an outturn position of £7.762m. The Housing Revenue Account capital spend was £22.077m for 2022/23, compared to an initial budget of £24.900m.

The Council maintains the General Fund Reserve at £3m. There are also several earmarked reserves with a total balance of £27.1m (at 31/03/2023) to meet specific liabilities when they fall due (split between General Fund and Housing reserves).

This illustrates the robustness of the Council's budget setting and their ability to manage their budget effectively.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to make informed decisions and properly manage its risks.

Value for Money Commentary (continued)

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

No significant weakness identified

The Council has arrangements in place to improve economy, efficiency and effectiveness. These derive from the Corporate Plan, setting out the Council's Vision and Values, as well as priorities and key activities for each portfolio area. The Corporate Plan also includes an action plan and achievement measures section, which is annually updated.

To track performance and judge how well the Council are delivering their services, they measure their key activities and set performance targets using performance indicators. The KPIs are organised into the portfolio headings and a performance summary is RAG rated, split between, staffing, budget, and service delivery impact. The scorecard is used to flag areas of required improvement, devise actions to address any weakness identified and monitor progress.

NFDC are also involved in various Partnership arrangements within the area. These include:

- The Partnership for South Hampshire
- The Solent Freeport
- Solent Local Enterprise Partnership (LEP)

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



10 Appendices

Appendix A - Summary of arrangements

Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	<p>New Forest District Council has various methods in place to ensure it can identify financial pressures, including keeping updated budget reports, to ensure the Council is on plan to meet budget requirements. The Council has a Narrative Statement which shows the annual comparison between budgeted and actual I&E, which assists in showing whether and where there were financial pressures looking backwards.</p> <p>Regular meetings are held, and minutes are available on the Council's website showing their review of financial pressures. A risk register is kept and updated annually by portfolio, which includes the potential financial impacts on the Council and actions to mitigate those risks.</p> <p>As of January 2023, there is one identified significant risk in relation to cyber security. There are also risks included on the risk register which relate to the financial resilience of the Council however these have not been red rated. These risks include areas such as inflation and cost of living pressures and the longer term impact of recovery from the Covid-19 pandemic. Pressures more specific to the Council have also been identified and include the pay award (and other increased salary costs), levelling up, the fair funding review and the impact of a Business Rates Reset. These are mitigated through regular financial monitoring and robust budgeting arrangements.</p> <p>Where possible, the budgets for 2022/23 and 2023/24, and the Medium Term Financial Plans for 2023/24 onwards have incorporated the pressures identified, including those relating to inflation and pay awards. The 2022/23 budget also includes a Council Tax increase of 2.7% (being £5) with the 2023/24 budget including an increase of 2.99%, as well as the ongoing analysis for savings measures which are required for the budget to be balanced in the medium to long term.</p> <p>There are other ongoing financial pressures in the local government sector, which has resulted in several councils making significant commercial investments using cheap borrowing through the 'Public Works Loan Board' (PWLB). As of March 2023, New Forest District Council have not used this approach to finance any capital or commercial programmes. In 2012/13 the Council borrowed £142.7 million from the PWLB for the Housing Revenue Account financing settlement. This is being paid down in instalments and the outstanding balance as of 31 March 2023 was £118.3m of which £4.3m is due to be repaid in the coming year (consistent with the prior year).</p> <p>New Forest District Council has developed a small portfolio of investment properties and has established a housing company to generate a return on cash at greater levels than current bank rates. It purchased £12.8m of investment property assets during the year (of which £7.306m related to the acquisition of 2 properties during the year), increasing its portfolio to a total of £30.7m at the year-end.</p>

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings												
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (continued)	<p>The long-term assets of the Council, which reflect its more commercial activity were as follows at 31/03/2023:</p> <table border="1"> <thead> <tr> <th>Significant Account</th> <th>Balance</th> <th>Description of Asset</th> </tr> </thead> <tbody> <tr> <td>Investment Property</td> <td>£30.7m</td> <td>The Council hold a varied portfolio of investment property, including a car park, marina, industrial units, offices, and retail.</td> </tr> <tr> <td>Long-Term Investment</td> <td>£14.6m</td> <td>Includes a £1.4m investment in wholly owned housing company and £13.2m in other investment funds.</td> </tr> <tr> <td>Short-Term Investment</td> <td>£3.0m</td> <td>All short-term investments held as bonds or short-term fixed interest deposits with either banks or other financial institutions, or other Local Authorities.</td> </tr> </tbody> </table>	Significant Account	Balance	Description of Asset	Investment Property	£30.7m	The Council hold a varied portfolio of investment property, including a car park, marina, industrial units, offices, and retail.	Long-Term Investment	£14.6m	Includes a £1.4m investment in wholly owned housing company and £13.2m in other investment funds.	Short-Term Investment	£3.0m	All short-term investments held as bonds or short-term fixed interest deposits with either banks or other financial institutions, or other Local Authorities.
Significant Account	Balance	Description of Asset											
Investment Property	£30.7m	The Council hold a varied portfolio of investment property, including a car park, marina, industrial units, offices, and retail.											
Long-Term Investment	£14.6m	Includes a £1.4m investment in wholly owned housing company and £13.2m in other investment funds.											
Short-Term Investment	£3.0m	All short-term investments held as bonds or short-term fixed interest deposits with either banks or other financial institutions, or other Local Authorities.											

We do not consider the above investments to be unusual for a Local Government body and not indicative of a higher risk profile. The investment in its wholly owned property company is not so significant that it creates a risk to the financial sustainability of the Council.

The Council sets out its investment strategy annually, which sets out the aims and objectives of the investment, namely helping to support the New Forest economy and community and making a profit that will be spent on local public services. There are approved limits (for 2022/23 set at £30m investment properties, £10m Housing Company) on spending which have been agreed as set out in the strategy. This Investment Strategy was updated in January 2023 to approve limits of £50m for investment properties, and a consistent limit of £10m for the Housing Company. The balance of investment properties of £30.7m at 31/03/2023 therefore remains within policy. All spending has been funded by internal borrowing.

For Interest Rates and Investments and Borrowing the Council has a Treasury Management Strategy. The strategy confirms the changes to the PWLB lending criteria which precludes a local authority from borrowing from PWLB for any purpose if it plans to purchase assets primarily for yield.

The Treasury Management Strategy also shows that the Council has an authorised borrowing limit of £219.1m. The treasury performance is monitored through the year and the mid-year report showed actual borrowing of £122.5m which remained below the limit and below the operational boundary of £201.4m. The Treasury Management Outturn Report confirmed that the borrowing limit had been updated to £207.3m, and the operational boundary updated to £189.6m. The £118.5m of borrowing held at 31st March 2023 continued to remain below these limits.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings	<p>The 2022/23 Narrative Report in the Annual Financial Report notes the following in relation to potential funding gaps:</p> <p><i>“The latest Medium Term Financial Plan, that accompanied the setting of the 2023/24 budget, highlighted the likely impact that the Fair Funding Review and the potential that a ‘hard’ Business Rates reset will have on the Council’s finances. Despite this, the plan outlined options to address the funding gap and demonstrate the ability to set a balanced budget through to 2025/26. Options include efficiency savings (to be borne from the Council’s emerging Transformation Framework), income growth through yield, the generation of new additional income through the Commercial and Residential Property Strategies and Council Tax increases.”</i></p> <p>The Council maintains the General Fund Reserve at £3m. There are also several earmarked reserves with a total balance of £27.1m (at 31/03/2023) to meet specific liabilities when they fall due.</p> <p>Within the 2022/23 Budget and Medium Term Financial Plan, the Council set a balanced budget for 2022/23. The budget sets out the differences compared to the previous year budget, with a £5 (2.7%) increase in Council Tax for a Band D property.</p> <p>In future years through to 2025/26, the MTFP shows additional budget shortfalls totalling £1.895m. This is split as:</p> <ul style="list-style-type: none">• £312k for 2023/24• £535k for 2024/25• £1.895m for 2025/26 <p>The future gaps are expected to be mitigated through:</p> <ul style="list-style-type: none">• implementation of the commercial and residential property strategies to bring valuable new sources of additional income into the Council,• Council-wide focus on delivery and transformation to identify and deliver a programmed approach to assets, services, and ways of working,• Council’s ability to maximise its revenues through local taxation; and• prudent use of budget equalisation reserves. <p>Specifically relating to the forecast shortfalls, the MTFP has identified additional commercial and residential property investment income of £120k per annum from 2022/23 with a further £250k per annum from 2023/24 (generating a cumulative total of £860k over the MTFP period).</p>

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings (continued)	<p>A further £5 increase in Council Tax generates an additional £363k per annum from 2023/24, with a further £366k per annum from 2024/25 and £369k from 2025/26, generating a total of £2,190k over the MTFP period.</p> <p>Finally, a target efficiency / income yield programme, is forecast to close the budget gap by £126k, £376k and £626k in 2023/24, 2024/25 and 2025/26 respectively.</p> <p>These options have therefore resulted in headroom to support capital expenditure of the following:</p> <ul style="list-style-type: none">• £297k for the 2023/24 period• £940k for the 2024/25 period• £199k for the 2025/26 period <p>There are acknowledged uncertainties to the medium term forecast, for example those associated with its developing Waste Strategy, the Solent Freeport, and annual pay awards which is consistent with the Council's risk register. We viewed its assumptions to be reasonable at the time of the budget, and that the Council has sufficient reserves and contingencies to respond to unforeseen events – such as we have subsequently seen with high inflation that has been managed during 2022/23 and into 2023/24.</p> <p>The 2023/24 Budget and Medium Term financial Plan has also set a balanced budget for 2023/24, including an increase of 2.99% for Council Tax for a Band D property.</p> <p>In future years through to 2026/27, the MTFP shows additional budget shortfalls totalling £1.324m. This is split as:</p> <ul style="list-style-type: none">• £699k for 2024/25• £320k for 2025/26• £1.324m for 2026/27 <p>These shortfalls are forecast to be addressed in a similar manner to those identified in the 2022/23 medium term financial plan, and have resulted the following:</p> <ul style="list-style-type: none">• A use of equalisation reserves of £116k for the 2024/25 period.• Headroom to support capital of £846k for the 2025/26 period.• Headroom to support capital of £176k for the 2026/27 period.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings (continued)	The Council has a budget equalization reserve which is available to offset any shortfall and balance the budget. This is contained within the Council's earmarked General Fund reserves of £18.652m at 31/03/2023 and therefore, is sufficient to cover any shortfall.
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The annual budget and MTFs sit alongside and facilitate the Council's Corporate Plan for 2020-24. The Council Plan was developed collaboratively with elected members, staff, partners, and other stakeholders to prioritise the most important areas the Council needs to focus on in the future. This is done to enable the Council's resources to be spent on the areas where it they are needed most. As it is aligned to the budget and MTFP, it intended to act as the framework in which investment decisions can be made based on agreed priorities and the outcomes the Council wants to achieve. It contains the Council's Vision and Values, as well as priorities and key activities for each portfolio area.</p> <p>The Corporate Plan also includes an action plan and achievement measures section, which is annually updated.</p> <p>The process of preparing the budget begins with using approved MTFP and updating with more detailed information as this becomes known. The financial and delivery performance against the Corporate Plan priorities is performed quarterly, culminating in the provisional outturn report that reports the year-end position and performance (subject to the audit of the financial statements). Quarterly monitoring includes the overall financial performance against budget, capital spend and project management reports. Where this performance information suggests a financial impact, this is reflected within the proposed budget.</p>
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	<p>Also see the commentary above which details how the MTFP and Budget are derived.</p> <p>Underneath the Corporate Plan, the medium-term financial strategy, annual revenue budget, capital budget, treasury management and capital investment strategies align to provide the financial framework for the Council that is consistent and aimed at achieving its corporate vision.</p> <p>Projections on the planned level of capital spending, borrowing and interest rates are considered each time the MTFP is updated.</p>

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>See commentary above.</p> <p>The Council has regular reviews and monitors potential risks to financial resilience. This is through, for example, the medium-term financial strategy and updates, and the strategic risk register.</p> <p>We have not identified risks to NFDC that are outside the normal risks being faced by all local government bodies, and have identified no issues to report concerning the arrangements in place to manage those risks.</p>

Appendix A - Summary of arrangements

Governance

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting Sub-Criteria

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Findings

The Council has sought to develop systems to identify, evaluate and mitigate risks which threaten its Council's ability to meet its objectives to deliver services to the public. To ensure that risks are appropriately mitigated, a Risk Register has been developed. This reflects the updates made to the Risk Management Policy in September 2022, to ensure that the identified risks are strategic in nature.

These risks are regularly reviewed. The register details the risks facing the Council and the impact on critical services. The Strategic Risk Register is managed by the Council's Executive Management Team (EMT) and Portfolio leads. This risk register is formally agreed by Cabinet and reviewed by the Audit Committee who make comments when required to Cabinet on the efficacy of the arrangements for managing risk at the council. Management of the risks is an active process, including through EMT and the Council's performance management framework.

We have reviewed the risk register as of March 2023, as presented to the 1st March 2023 Cabinet meeting. Compared with the prior year, the register has been updated to assess the wider context and changing environment the Council was facing, for example inclusion of inflation on the Council and its partners and community.

In the prior year, due to effective mitigation, there were no strategic risks included in the red (high) residual risk rating. In March 2023, whilst there remains appropriate mitigations against all risks, there is one residual risk in that higher category. This has been commented on above.

We note that in 2022/23, the Council has also updated its Risk Management Policy with the aim of providing further clarity to the approach of risk management at New Forest District Council.

The Council has an established Anti-Fraud, Bribery and Corruption Policy and whistle-blowing arrangements that are accessible on its website as well as an established Code of Conduct of both Officers and Members.

Those charged with governance and all officers have access to a e-learning that outlines NFDC's fraud-related policies, and that this must be completed every two years.

There is an established internal audit function, performed by the Southern Internal Audit Partnership (SIAP) and programme of work and an annual opinion on internal control is given by the Head of Internal Audit. There is also an Internal Audit Charter which describes the purpose, authority, and responsibility of internal audit activity.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud (continued)	<p>Internal audit set out their testing approach at the beginning of each financial year, detailing the areas they will focus on. The audit plan has been developed having regard to the Council's 'Vision, Priorities and Values', the Council's risk management framework and areas of Corporate/National significance such as Climate Change.</p> <p>The Head of Internal Audit opinion for 2022/23 was 'Reasonable' for governance, risk management and management control.</p>
How the body approaches and carries out its annual budget setting process	<p>The budget is derived both bottom-up and top-down. The budget for the previous year, incorporating any in-year amendments is the starting point for the next year's budget. Meetings are then held with service managers where they make changes to the starting budget as they see appropriate, based on their forecasts. Changes are brought back to Finance for challenge before scrutiny by the Housing & Committees and Resources & Transformation Overview and Scrutiny Panels.</p> <p>The budget is reviewed quarterly, and where significant changes are identified in year which results in the original budget being no longer reflective of the actual conditions in year, the budget is updated. For example, the rise in inflation rate and cost of living impacts were incorporated in the 2022/23 budget to reflect the changes within the wider economy. The 2023/24 budget was then developed in the year, and the changes in comparison to the previous year were set out in the annual budget report.</p> <p>NFDC maintain a general balance at their minimum reserve level of £3m. In addition to the general fund balance, the Council also hold several earmarked reserves to cover unexpected liabilities/increases in costs.</p> <p>As of 31/03/2023 the Council's reserves position is as follows per the financial statements:</p> <ul style="list-style-type: none">• General Fund: £3m• Earmarked Reserves: £27.1m (including Capital programme reserve £9.8m) <p>Further reserves, held for specific or statutory purposes and not available to support the revenue budget include:</p> <ul style="list-style-type: none">• £1m HRA reserve• £6.2m capital receipts reserve• £8.03m community infrastructure levy unapplied reserve• £4.2m developer's contributions unapplied reserve

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed	<p>Financial Monitoring is achieved by regular budgetary control reports to nominated budget holders, EMT, 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. Overview and Scrutiny arrangements are in place with an annual report of work carried out presented to Council.</p> <p>There is a requirement to monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis, as part of the Council's overall financial and performance management reporting process. It is the responsibility of the EMT and Portfolio heads to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Finance team. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Executive Head of Financial & Corporate Services to any problems.</p> <p>The Council's financial performance (revenue and capital) are formally reported quarterly through a Financial Monitoring Report and through to the outturn report at year-end.</p> <p>There is also an internal audit function which provides an interim report and a year-end report to confirm that controls are in place. We have obtained the report from internal audit at year end which reported 4 limited assurance reviews relating to:</p> <ul style="list-style-type: none">• Use of Agency Staff• IT Asset Management• Open Spaces - Safety Checks• Engineering Works <p>The details provided by Internal Audit for those reviews given a Limited Assurance rating, provide assurance that in our judgement, does not indicate a significant weakness for our assessment of VFM arrangements.</p>

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed (continued)	<p>The ratings for Internal Audit’s review of the Council’s financial systems and governance arrangements were as follows:</p> <ul style="list-style-type: none"> • Main Accounting and Reconciliations = Substantial Assurance • HR - Pay Awards and Spinal Points Review = Substantial Assurance • Leisure Contract Management = Substantial Assurance • Leased Income = Reasonable Assurance • Accounts Receivable and Debts Management = Reasonable Assurance • Keyhaven Income = Reasonable Assurance <p>Statutory financial reporting is prepared at year-end based on the CIPFA requirements. The annual governance statement and the narrative statement confirm that the accounts are prepared in accordance with the relevant financial CIPFA code.</p>
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	<p>Decisions are taken by the committees of the Council, and are informed by detailed reports produced by officers, with key decisions on Council Policy taken by the Cabinet or Council in accordance with the Council’s constitution, which is regularly reviewed and updated as appropriate. It was reviewed during May of the financial year, and again in May 2023.</p> <p>There is a monthly Cabinet meeting, to ensure leadership is regularly updated on NFDC’s position.</p> <p>There are established Overview and Scrutiny Panels and the Audit Committee is the body formally charged with governance at the Council. The role of the Scrutiny Panels is to undertake reviews of the Council’s policies, either on their own initiative or at the request of the Council or the Cabinet, advise on policy development, and review executive decisions to make sure the Cabinet does not exceed its powers.</p> <p>The Audit Committee combines both audit functions, for example considering the work of both internal and external audit, and the adequacy of risk management arrangements, and governance functions, for example promoting and maintaining high standards of conduct by Councillors and any co-opted members and assisting the Councillors and co-opted members to observe the Members’ Code of Conduct.</p>

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting Sub-Criteria

Findings

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The responsibilities and statutory requirements of all officers and members is embedded in the Constitution. All significant actions by the Council which may have legal implications either require authorisation by the Monitoring Officer or individuals specifically delegated to act on behalf of the Monitoring Officer as set out in the Council's decision-making rules. Decision makers are also required to act within the Council's Standing Orders and scheme of delegation which makes provision for legal and constitutional advice to inform such decisions. The Council's Constitution contains several check points at which officers can identify whether decisions are being taken in compliance with the prescribed rules which ensure legal compliance.

The Council has also adopted a Code of Corporate Governance (the Code) which is a framework based on guidance published in April 2016 by the Chartered Institute of Public Finance Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) around 'Delivering Good Governance in Local Government'. The Code is underpinned by the 7 core principles in the CIPFA/SOLACE framework, and is comprised of policies, procedures, behaviours, and values by which the authority is controlled and governed. These Codes provide the structures and guidance that members and employees require to ensure effective governance across the Council. It also sets out the Council's expectations and arrangements in place to help ensure that the Council conducts its business in accordance with the law and proper standards. One of its objectives is to ensure and that public money is safeguarded, properly accounted for, and used economically, efficiently, and effectively.

There is an established Employee Code of Conduct, Member Code of Conduct and Protocol for Member/Officer Relations. The Members' code of conduct is also set out in Section 5 of the Constitution. Both members and officers are also required to declare related party interests which we consider as part of our work to gain assurance over related party transactions. Member interests are publicly available on the Council's website.

There are appropriate policies for such matters as accepting new business, conflicts of interest, and security practices that are adequately communicated throughout the organization. The entity's corporate culture emphasizes the importance of integrity and ethical behaviour. Management takes appropriate action in response to departures from approved policies and procedures or the code of conduct.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting Sub-Criteria

Findings

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests) (continued)

Records are maintained of all instances of fraud and irregularity reported for monitoring and analytical purposes. New Forest District Council employs a Corporate Fraud Officer who is responsible for providing both reactive fraud and irregularity investigations and proactive fraud work in line with the Anti-fraud, Bribery and Corruption Strategy. The internal audit plan contains a provision to monitor the outcomes of this work and review the governance arrangements to prevent, detect and investigate fraud and irregularities on a cyclical basis. Reported investigations into suspected and alleged acts of theft, fraud, or corruption, are undertaken professionally and sensitively by appropriately trained staff. The decision on whether to invoke criminal proceedings is made in liaison with the Monitoring Officer.

Staff are expected, and are positively encouraged, to raise any concerns relating to fraud and corruption of which they become aware. The Council has an established and recently updated Whistleblowing policy enabling employees to raise and report concerns of fraud. The Council has a strong governance framework that supports an anti-fraud culture.

The entity has several policy and procedure manuals relating to its processes and internal control which are held on the Council's intranet and available to all employees to ensure they are fully informed on the standards of the Council. Training and awareness sessions are provided as necessary. From our discussions with members of staff, employees are aware of these policies and procedures and able to access them.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	The Council produces a report of its Strategic Key Performance Indicators within its annual performance report. These KPIs are linked back to the key priorities within the Corporate Plan. The KPIs are organised into the portfolio headings and a performance summary is RAG rated, split between, staffing, budget, and service delivery impact. The scorecard is used to flag areas of required improvement, devise actions to address any weakness identified and monitor progress.
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>As set out previously, service performance against Council priorities is considered regularly throughout the year through the Quarterly Financial Monitoring Report.</p> <p>The Council also produce an Annual Performance Report which enables the Council and the public to identify services or capital programmes that are, or are not, performing as expected by reference to KPI outcomes against targets which are based on the Council's strategic priorities as per the Corporate Plan. Monitoring arrangements therefore present a complete picture of both business and financial performance. KPIs include the current and previous year performance, and a RAG rating to clearly identify those items that are underperforming, or perhaps require closer monitoring.</p> <p>As we noted previously, the indicators are refreshed and reassessed annually within the Corporate Plan updates, to ensure they align to the priorities for the year.</p>
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	<p>The Council participate in regular committee meetings which are available to the public to review, and therefore stakeholders can understand what is happening.</p> <p>The Council produces documents throughout the year which give the stakeholders, i.e., the public, employees etc an understanding of how the Council is performing, i.e., budget reports and performance dashboards.</p> <p>The annual financial statements are also available once audited to the public, which include the narrative/governance statement, which provides transparency to the public.</p> <p>There is also a 'Transparency and Open Government' section on the Council website, which gives the public the ability to review the Council expenditure, enabling the Council to be open to scrutiny.</p> <p>The Council also has an appropriate governance structure in place to ensure performance expectations are met.</p>

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve (continued)	<p>Partnerships are included, as appropriate, within the Corporate Plan by portfolio. There is a 'Partnering and Wellbeing' portfolio which has a particular emphasis on working in partnership for the benefit of the health and wellbeing of the district. Other partnerships are reflected in other portfolio plans and activities.</p> <p>NFDC are within the Partnership for South Hampshire, which is made up of 12 local authorities in the Solent area with the aim of collectively improving the environmental, cultural, and economic performance of the South Hampshire area. This partnership comes together approximately 5 times a year through a joint committee. The partnership focuses on areas not in the remit of the LEP, particularly on sustainable housing development and environmental sustainability.</p> <p>One of the largest projects New Forest District Council have partnered in is the Solent Freeport. In March 2022, an outline business case was approved by New Forest DC Full Council at an extraordinary meeting, with a full business case submitted to Government soon after. It is noted the case was approved with Solent Freeport fully designated in December 2022. The Solent Freeport has a designated board and NFDC have one seat on the board. There are 12 members in total including CEO and independent chair with the other seats being allocated to other stakeholders including other local authorities involved in the Freeport. However, it is noted in the business case that there is an expectation to increase the board to 16 members through bringing in 4 Non-Executive Directors to strengthen and increase board capacity for the delivery phase of the Freeport.</p> <p>To enable Freeport development, NFDC will draft a Development Framework to look at the overall package of measures needed to deliver development in and around the Southampton Waterfront Cluster, recognising the complex and sensitive nature of the area, and set out a plan for delivery. To resource this work, the local authority will create a dedicated multi-disciplined team to assist in delivery of LDO/NSIP and to deliver some of the mitigation projects identified in the Development Framework and drawing upon established partnership working in the area.</p> <p>In addition to the more recent Freeport development, NFDC have representation on the Solent Local Enterprise Partnership (LEP) board, which meets approximately once every 2 months. The LEP is responsible for bringing together local businesses, local authorities, and academia to determine economic priorities and promote sustainable growth. As part of this, the LEP is developing a new Economic Strategy for the Solent - Solent 2050, of which the Freeport will be a significant component of the strategy.</p>

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

Reporting Sub-Criteria	Findings
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	<p>New Forest District Council purchases goods and services from a variety of suppliers. Details of procurements are documented at https://www.newforest.gov.uk/article/942/Supplying-the-council, which includes the Council's overall Procurement Strategy 2023 to help support the delivery of the Council's Corporate Plan. The website also includes details on the terms and conditions and general procurement process, see at www.newforest.gov.uk/standardtermsandconditions.</p> <p>The Council shares information on upcoming tenders as well as details of existing contracts at Southeast Business Portal (SEBP) which is used by over 35 other local authorities.</p> <p>Proposals for asset maintenance expenditure are supported by a business case, as are requests for new revenue resources. These are scrutinised initially by the Executive Management Team 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 the Council each year.</p> <p>All procurement processes and contract awards must comply with the Council's Contract Standing Orders (CSOs) set out in Chapter 4/10 of the Constitution which also sets out the limited circumstances and processes that need to be followed for those requirements to be waived.</p> <p>There is an internal audit function that tests whether the controls in place are effective. There are regular committee meetings to discuss the Council performance, and any issues can be raised there.</p>

Appendix B – Financial Statement Recommendations from 2021/22

Recommendations

Within our 2021/22 Audit Results Report, we included further findings and recommendations relating to the audit of the 2021/22 financial statements. We further highlight these below alongside the response from management which includes any progress made. All recommendations have been agreed by management.

Issue	Recommendation	Management response
Financial Statements Preparation	<p>As part of CIPFA's Cutting the Clutter thematic, we have reviewed the financial statements and identified 18 notes which can either be consolidated together to reduce duplication of information or could be removed altogether on the grounds of materiality.</p> <p>During the 2022/23 accounts preparation, a proportion of these were removed or consolidated. However, there remain some notes which could be further consolidated or removed.</p> <p>This is also an area which management should continually review throughout their financial statement preparation process.</p>	Finance Officers have reviewed notes and disclosures and have consolidated and / or removed where minimal value is added.
Journal Entry Processing	<p>Further background to this recommendation has been included on page 31.</p> <p>We request the Council considers if their current method is the most efficient approach of Journal Entry posting. In 2021/22, there are over £300m of Income and Expenditure entries that are netted out to nil as part of the creation of the financial statements, a significant volume. Can these postings be grouped together, automated or eliminated?</p>	Finance Officers have reviewed internal recharging processes and have reduced the overall number of journal entries going forward.

Appendix B – Financial Statement Recommendations from 2021/22

Recommendations – Background

As part of undertaking our “Data First” approach to the 2021/22 financial statement audit, it was noted that New Forest District Council initiate the majority of their journal entry postings based on budgeted figures. The amounts are allocated out to multiple business units on a monthly basis through recharges. In order to then record the actual rather than budgeted figures in the financial statements, clearing transactions are posted at year end.

In addition to this, these postings (i.e. the posting of the budgeted amounts and the clearing journals at year-end) are often made through holding codes which are not mapped to the net cost of services. Instead, these codes are netted to nil at year-end, and recharged to the net cost of services.

This has been a method used by the Council for a number of years and while not suggestive of resulting in incorrect figures in the financial statements, the multiple recharge and budgetary postings lead to difficulties in identifying a clear audit trail. In particular, difficulties are experienced when testing a sample of Income and Expenditure transactions from the net cost of services as our population consists of:

- Journals posted to reflect the budgetary amount (often posted to holding codes)
- Journals posted to recharge these budgetary amounts across various business units (often being across holding codes)
- Journals posted to reflect the actual performance for the year, which can also include the recharging of this actual performance across various business units and holding codes
- Journals posted to clear the holding codes to nil at year-end and reflect actual performance in the net cost of services

It also can create difficulties in attempting to reconcile financial statement related general ledger codes to subledgers including Payroll and Accounts Receivable, as these subledgers are often recorded within the holding codes as opposed to the main net cost of services. This is a key procedure performed as part of our audit to confirm the completeness of listings.

In future years, we request that the Council perform these reconciliations between the financial statements GL codes to subledgers (rather than to holding codes) in advance of the audit to help provide those early assurances that the data is correct and complete.

We would also request the Council to consider if their current method is the most efficient approach of Journal Entry posting. In 2021/22, there are over £300m of Income and Expenditure entries that are netted out to nil as part of the creation of the financial statements, a significant volume. Can these postings be grouped together, automated or eliminated?

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ED None

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AUDIT COMMITTEE – 22 MARCH 2024

INTERNAL AUDIT PROGRESS REPORT 2023-24 (FEBRUARY 2024)

1. RECOMMENDATIONS

- 1.1 That the Audit Committee note the content of the progress report, attached as Appendix A, summarising internal audit progress with delivering the 2023-24 audit plan to 28th February 2024.

2. INTRODUCTION

- 2.1 The purpose of this report is to provide the Audit Committee with an overview of internal audit activity completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

3. BACKGROUND

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

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

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

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

- 3.3 The progress report, attached as Appendix A, summarises the performance of Internal Audit for 2023-24 to 28th February 2024.

4. FINANCIAL IMPLICATIONS

- 4.1 The audit plan consists of 400 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 2023-24 reflects these arrangements.

5. CRIME & DISORDER IMPLICATIONS

- 5.1 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.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no matters arising directly from this report.

7. EQUALITY & DIVERSITY IMPLICATIONS

7.1 There are no matters arising directly from this report.

8. DATA PROTECTION IMPLICATIONS

8.1 There are no matters arising directly from this report.

For further information contact:

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Background Papers:

Internal Audit Plan 2023-24

Internal Audit Progress Report 2023-24

February 2024

New Forest District Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

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

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

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

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

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

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

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

2. Purpose of report

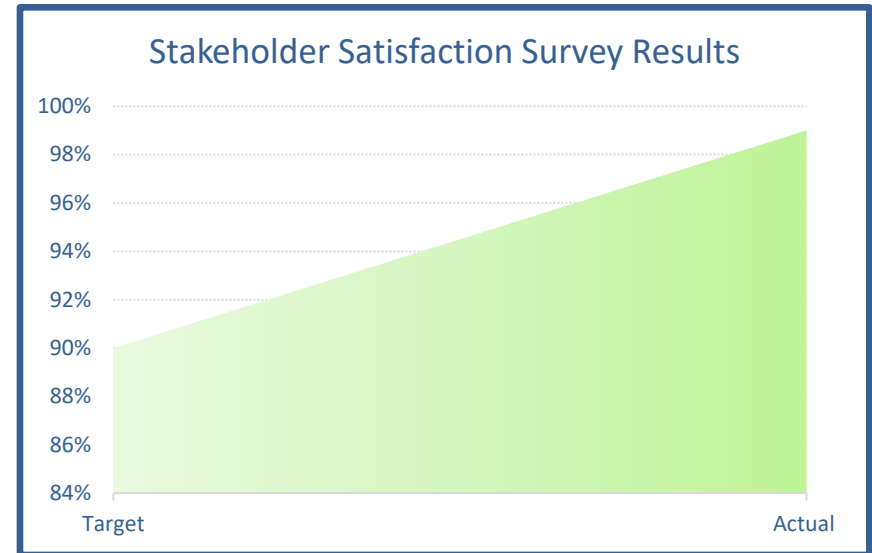
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

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

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

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.

3. Performance dashboard



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Compliance with Public Sector Internal Audit Standards

An External Quality Assessment of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. The report concluded:

'The mandatory elements of the International Professional Practices Framework (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.'

4. Analysis of 'Live' audit reviews

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)	Not Yet Due	Complete	Overdue		
							L	M	H
Income Collection and Banking	Jun 21	SM (R&CS)	Reasonable	4	2	2			
Cyber Security	Jul 21	ICTOM	Reasonable	8	0	6		2	
Lease Income and Charges	Aug 22	SM (E&V)	Reasonable	2	0	1	1		
Homelessness – Triage	Apr 23	SM (HO)	Reasonable	6	0	3	3		
Fleet Management (follow-up phase 2)	May 23	SM (W&T)	Reasonable	9	0	0	2	3	4
Identity Management (ICT)	May 23	ICTOM	Reasonable	6	0	5		1	
Engineering Works	Aug 23	SM (C)	Limited	10	7	0	1	1	1
Commercial Activities – Appletree Holdings	Oct 23	SM (E&V)	Substantial	1	1	0			
NNDR	Nov 23	SM (R&CS)	Reasonable	4	3	1			
Open Spaces and Playground Safety Checks	Dec 23	G&SM	Limited	12	5	5		2	
Housing Asset Management – Electrical Safety Checks	Feb 24	SM (HM&C)	Reasonable	8	7	1			
Total							7	9	5

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

Audit Sponsor		Audit Sponsor	
Strategic Director Housing, Communities & Governance	SDHC&G	ICT Operations Manager	ICTOM
Assistant Director Housing	ADH	Transformation & Improvement Manager	T&IM
Service Manager (Housing Maintenance & Compliance)	SM (HM&C)	Performance & Insight Manager	P&IM
Service Manager (Housing Options, Rents, Support and Private Sector Housing)	SM (HO)	Strategic Director Place, Operations & Sustainability	SDPOS
Service Manager (Housing Strategy & Development)	SM (HS&D)	Assistant Director Place Operations	ADPO
Service Manager (Estate Management & Support)	SM (EM&S)	Service Manager (Coastal)	SM (C)
Service Manager (Democratic Services)	SM (DS)	Service Manager (Waste & Transport)	SM (W&T)
Service Manager (Legal Services)	SM (LS)	Environment Enforcement & Amenities Manager	EE&AM
Service Manager (Environmental & Regulation)	SM (E&R)	Grounds & Streetscene Manager	G&SM
Information Governance & Complaints Manager	IG&CM	Assistant Director Place Development	ADPD
Strategic Support Manager	SSM	Service Manager (Development Management)	SM (DM)
Strategic Director Corporate Resource & Transformation	SDCR&T	Service Manager (Planning Policy and Infrastructure)	SM (PP&I)
Assistant Director Transformation	ADT	Economic Development Manager	EDM
Service Manager (Revenues & Customer Services)	SM (R&CS)	Building Control Team Leader	BCTL
Service Manager (Human Resources)	SM (HR)		
Service Manager (Estates & Valuation)	SM (E&V)		
Service Manager (Finance)	SM (FIN)		
Service Manager (Elections & Business Improvement)	SM (E&BI)		
Data Development & Delivery Manager	DDDM		

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

No audits have concluded with a ‘Limited’ or ‘No’ Assurance Opinion.

6. Planning & Resourcing

The Internal Audit Plan for 2023-24 was agreed by EMT and approved by the Audit Committee in March 2023. The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 7.

7. Rolling Work Programme

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
2022-23 Audits (included within the annual report and opinion)								
Open Spaces and Playground Safety Checks	G&SM	✓	✓	✓	Dec 22	Dec 23	Limited	
Engineering Works	SM (C)	✓	✓	✓	Sep 22	Aug 23	Limited	
2023-24 Audits								
Corporate / Governance Framework								
Transformation Programme – Governance Arrangements	ADT	✓	✓	✓				
Corporate Governance Framework – Fraud Framework	SM (R&CS)	✓	✓	✓				
Commercial Activities – Appletree Holdings	SM (E&V)	✓	✓	✓	Sep 23	Oct 23	Substantial	
Business Continuity	SM (E&R)	✓	✓	✓	Jul 23			
Information Governance – Data Retention/Records Management	IG&CM	✓	✓	✓				

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Procurement	SDCR&T	✓	✓	✓				
Contract Management – Leisure Contract	SDCR&T	✓	✓					
Health and Safety	SM (HR)	✓	✓	✓				
Emergency Planning	SM (E&R)	✓	✓	✓				
Risk Management	SM (FIN)	✓	✓					
Human Resources								
Employee Benefits/Salary Sacrifice Scheme	SM (HR)	✓	✓	✓	Sep 23	Oct 23	Reasonable	
Core Financial Systems								
Council Tax – Debt Management & Resident Support	SM (R&CS)	✓	✓	✓	Nov 23	Nov 23	Substantial	
NNDR	SM (R&CS)	✓	✓	✓	Nov 23	Nov 23	Reasonable	
Accounts Payable	SM (FIN)	✓	✓	✓				
Income Collection and Banking	SM (FIN)	✓	✓	✓	Dec 23	Dec 23	Substantial	
Information Technology								
IT – Contract Management	ICTOM	✓	✓	✓				
IT – Asset Management Follow-up	ICTOM	✓	✓	✓	Jan 24	Jan 24	N/A	
Portfolio Themes								
Homelessness – Prevention and Relief	SM (HO)	✓	✓	✓				
Housing Allocations	SM (HO)	✓	✓					
Housing Management - Rents	SM (HO)	✓	✓	✓				
Housing Asset Management – Electrical Safety Checks	SM (HM&C)	✓	✓	✓	Oct 23	Feb 24	Reasonable	
Disabled Facilities Grants	ADH	✓	✓	✓				
CIL/S106/Developer Obligations	SM (DM)	✓	✓					

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Environmental Services – Garden Waste Collection	ADPO	✓	✓	✓				
Animal Welfare Licencing	SM (E&R)	✓	✓					
Parking and Enforcement	EE&AM	✓	✓	✓				
Clean Streets – Enforcement	EE&AM	✓	✓	✓				
Keyhaven – Inspection/Enforcement	SM (C)	✓						
Telecare	SM (EM&S)	✓						
Changing Places Grant	SDCR&T	✓	n/a	✓	n/a	Sep 23	n/a	Grant certified

Annex 1 - Adjustments to the plan

Audit reviews added to the plan (included in rolling work programme above)	Comment
Business Continuity *	Carried forward from 2022-23 plan as work in progress at the time of the Annual Internal Audit Report and Opinion.
Housing Asset Management – Electrical Safety Checks *	Carried forward from 2022-23 plan as work in progress at the time of the Annual Internal Audit Report and Opinion.
Changing Places Grant **	DLUHC changing places grant requiring certification that usage is in line with the grant conditions.

Audit reviews removed from the plan (excluded from rolling work programme)	Comment
HR - Performance Management Reviews **	Defer the review to 2024-25 to align with the approval of the new/refreshed Corporate Plan and subsequent development / cascade of performance measures to individual performance management reviews.
Performance Management Framework ***	Defer the review to 2024-25 to align with the approval of the new/refreshed Corporate Plan and subsequent cascade of performance measures to Services.
Planning / Development Management – End to end process ***	Defer the review as new Planning/Development Management system has not been implemented within anticipated timeframes pending further developments required from the system provider.
Housing Asset Management – Voids ***	An action plan to address voids has been developed therefore defer the review to 2024-25 in order to assess progress with the action plan.

* Agreed July 2023

** Agreed October 2023

*** Agreed January 2024

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AUDIT COMMITTEE – 22 MARCH 2024

INTERNAL AUDIT CHARTER 2024-25

1. RECOMMENDATIONS

- 1.1 That the Audit Committee approve the Internal Audit Charter 2024-25, attached as Appendix A.

2. INTRODUCTION

- 2.1 The purpose of this paper is to provide the Audit Committee with the Internal Audit Charter for 2024-25.
- 2.2 The Internal Audit Charter formally defines the internal audit activity's purpose, authority and responsibility in line with the Public Sector Internal Auditing Standards [the Standards].

3. BACKGROUND

- 3.1 With effect from 1 April 2013 internal audit services across the public sector have been governed by the Public Sector Internal Audit Standards (the Standards – updated 2017).
- 3.2 Within the Standards there is a requirement for an Internal Audit Charter - a formal document that defines the purpose, authority and responsibility of the internal audit activity. The proposed charter is attached as Appendix A.
- 3.3 The Internal Audit Charter must be reviewed periodically (as a minimum annually) by the Chief Internal Auditor and presented to 'Senior Management' and 'the Board'. The Board is defined as

'the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Audit Committee'.

4. FINANCIAL IMPLICATIONS

- 4.1 The audit plan consists of 400 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 2024-25 reflects these arrangements.

5. CRIME & DISORDER IMPLICATIONS

- 5.1 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.
- 5.2 The Council employs a Corporate Fraud Officer who is responsible for providing both reactive fraud and irregularity investigations and proactive fraud work. As the Internal Audit provider, the Southern Internal Audit Partnership (SIAP) will monitor the outcomes of this work and will review the governance arrangements to prevent, detect and investigate fraud and irregularities on a cyclical basis.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no matters arising directly from this report.

7. EQUALITY & DIVERSITY IMPLICATIONS

7.1 There are no matters arising directly from this report.

8. DATA PROTECTION IMPLICATIONS

8.1 There are no matters arising directly from this report.

For further information contact:

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Background Papers:

None

Internal Audit Charter 2024-25

Introduction

The Public Sector Internal Audit Standards (the Standards) provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes the mission; core principles; definition of internal audit; and Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

Mission and Core Principles

The IPPF 'Mission' aims *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*

The 'Core Principles' underpin delivery of the IPPF mission:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.

Authority

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 adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards (updated 2017).

Purpose

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.

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

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

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

Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within New Forest District Council lies with the Executive Head of Financial and Corporate Services as the Authority's Chief Finance Officer (S151 Officer).

For the Council, internal audit is provided by the Southern Internal Audit Partnership (SIAP).

The Chief Internal Auditor - Deputy Head of Partnership (SIAP) is responsible for effectively managing the internal audit activity in accordance with the *'Mission', 'Core Principles', 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'*.

Definitions

For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Audit Committee.

Senior Management – those responsible for the leadership and direction of the Council. At the Council this shall mean the Executive Management Team.

Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the Executive Head of Financial and Corporate Services who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committee).

Internal audit resources

The Chief Internal Auditor will be professionally qualified (Chartered Member of the Institute of Internal Auditors - CMIIA, Consultative Committee of Accountancy Bodies - CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Executive Head of Financial and Corporate Services will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

'Senior Management' and *'the Board'* will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to *'Senior Management'* and *'the Board'*, for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to *'Senior Management'* and *'the Board'*.

If the Chief Internal Auditor, *'the Board'* or *'Senior Management'* consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Executive Head of Financial and Corporate Services accordingly.

Independence and objectivity

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to *'Senior Management'* and *'the Board'*;
- reports functionally to *'the Board'*;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognise and address potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to *'Senior Management'* and *'the Board'*. The nature of the disclosure will depend upon the impairment.

Due professional care

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the *'Mission'*, *'Core Principles'*, *'Definition of Internal Auditing'*, the *'Code of Ethics'* and the *'Standards'* and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor who will inform relevant officers in accordance with the Council's laid down procedures.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

Access to relevant personnel and records

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

Scope of Internal Audit activities

The 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 will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The Council assume a Key Stakeholder role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the Southern Internal Audit Partnership. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls.

The Council employs a Corporate Fraud Officer who is responsible for providing both reactive fraud and irregularity investigations and proactive fraud work, including participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity. The Corporate Fraud Officer will inform SIAP of the outcomes of all reactive fraud and irregularity investigations and proactive fraud work on a regular basis. SIAP will monitor the outcomes of this work and will review the governance arrangements to prevent, detect and investigate fraud and irregularities on a cyclical basis.

Reporting

Chief Internal Auditor's Annual Report and Opinion

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Senior Management

As those responsible for the leadership and direction of the Council it is imperative that the Executive Management Team are engaged in:

- approving the internal audit charter (minimum annually);
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance

The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit resource plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations;
- agreement of the scope and form of the external assessment as part of the quality management and improvement plan;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement.

Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to '*Senior Management*' and '*the Board*' for approval.

Southern Internal Audit Partnership – Client Portfolio

Strategic Partner:	Hampshire County Council
Key Stakeholder Partners:	<p>West Sussex County Council Havant Borough Council East Hampshire District Council Winchester City Council New Forest District Council Mole Valley District Council Epsom & Ewell Borough Council Reigate & Banstead Borough Council Tandridge District Council Crawley Borough Council Arun District Council Guildford Borough Council Hart District Council</p>
Blue light Key Stakeholder Partners:	<p>Hampshire & IoW Fire & Rescue Authority West Sussex Fire Service Office of the Hampshire & IoW Police & Crime Commissioner / Hampshire & IoW Constabulary Office of the Sussex Police & Crime Commissioner / Sussex Police Force Office of the Surrey Police & Crime Commissioner / Surrey Police Force</p>
External clients:	<p>Waverley Borough Council Hampshire Pension Fund West Sussex Pension Fund New Forest National Park Authority Ringwood Town Council Lympington & Pennington Town Council Langstone Harbour Authority Chichester Harbour Authority Isle of Wight College</p>

Assurance Services

- **Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- **Developing systems audit:** in which:
 - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
 - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- **Fraud and irregularity investigations:** Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the Council's Anti-Fraud, Bribery and Corruption Strategy.
- **Advisory / Consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

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AUDIT COMMITTEE – 22 MARCH 2024

INTERNAL AUDIT PLAN 2024-25

1. RECOMMENDATIONS

- 1.1 That the Audit Committee approve the Internal Plan 2024-25, attached as Appendix A.

2. INTRODUCTION

- 2.1 The purpose of this paper is to provide the Audit Committee with the Internal Audit Plan 2024-25, including an indicative plan for 2025-26 to 2026-27, for New Forest District Council, attached as Appendix A.
- 2.2 The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities, systems or processes under review that:
- The framework of risk management, control and governance processes is appropriate and operating effectively; and
 - Risks to the achievement of the Council's objectives are identified, assessed and managed to a defined acceptable level.

3. BACKGROUND

- 3.1 The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, control and governance arrangements.
- 3.2 To ensure the Internal Audit Plan is aligned to the needs of the Council, the plan has been developed following consultation with the Executive Management Team, Assistant Directors and a review of key documents including the Strategic Risk Register.
- 3.3 The Internal Audit Plan will remain fluid and subject to on-going review, and amended in consultation with the relevant officers, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Chief Internal Auditor's continued contact and liaison with the Executive Management Team and the Audit Committee.
- 3.4 The Council's 'Internal Audit Charter' ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion. Significant matters that jeopardise the delivery of the plan, or require changes to the plan will be identified, addressed and reported to the Executive Management Team.

4. FINANCIAL IMPLICATIONS

- 4.1 The audit plan consists of 400 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 2024-25 reflects these arrangements.

5. CRIME & DISORDER IMPLICATIONS

- 5.1 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.
- 5.2 The Council employs a Corporate Fraud Officer who is responsible for providing both reactive fraud and irregularity investigations and proactive fraud work. As the Internal Audit provider, the Southern Internal Audit Partnership (SIAP) will monitor the outcomes of this work and will review the governance arrangements to prevent, detect and investigate fraud and irregularities on a cyclical basis.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no matters arising directly from this report.

7. EQUALITY & DIVERSITY IMPLICATIONS

- 7.1 There are no matters arising directly from this report.

8. DATA PROTECTION IMPLICATIONS

- 8.1 There are no matters arising directly from this report.

For further information contact:

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antony.harvey@hants.gov.uk

Background Papers:

None

Southern Internal Audit Partnership

Assurance through excellence
and innovation

NEW FOREST DISTRICT COUNCIL INTERNAL AUDIT PLAN 2024-25

Prepared by: Antony Harvey, Deputy Head of Partnership

February 2024

Introduction

The role of internal audit is that of 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.

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

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

Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant stakeholders to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Southern Internal Audit Partnership's continued contact and liaison with those responsible for the governance of the Council.

Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The strategic lead will be Antony Harvey, Deputy Head of Partnership, supported by Liz Foster, Audit Manager.

Conformance with Internal Auditing Standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2020 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework (IPPF).

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

85 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.'

Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team which are required to be disclosed under internal auditing standards.

Developing the Internal Audit Plan 2024-25

In accordance with the Public Sector Internal Audit Standards there is a requirement that internal audit establish a risk-based audit plan to determine the resourcing of the internal audit service, consistent with the organisation's goals.

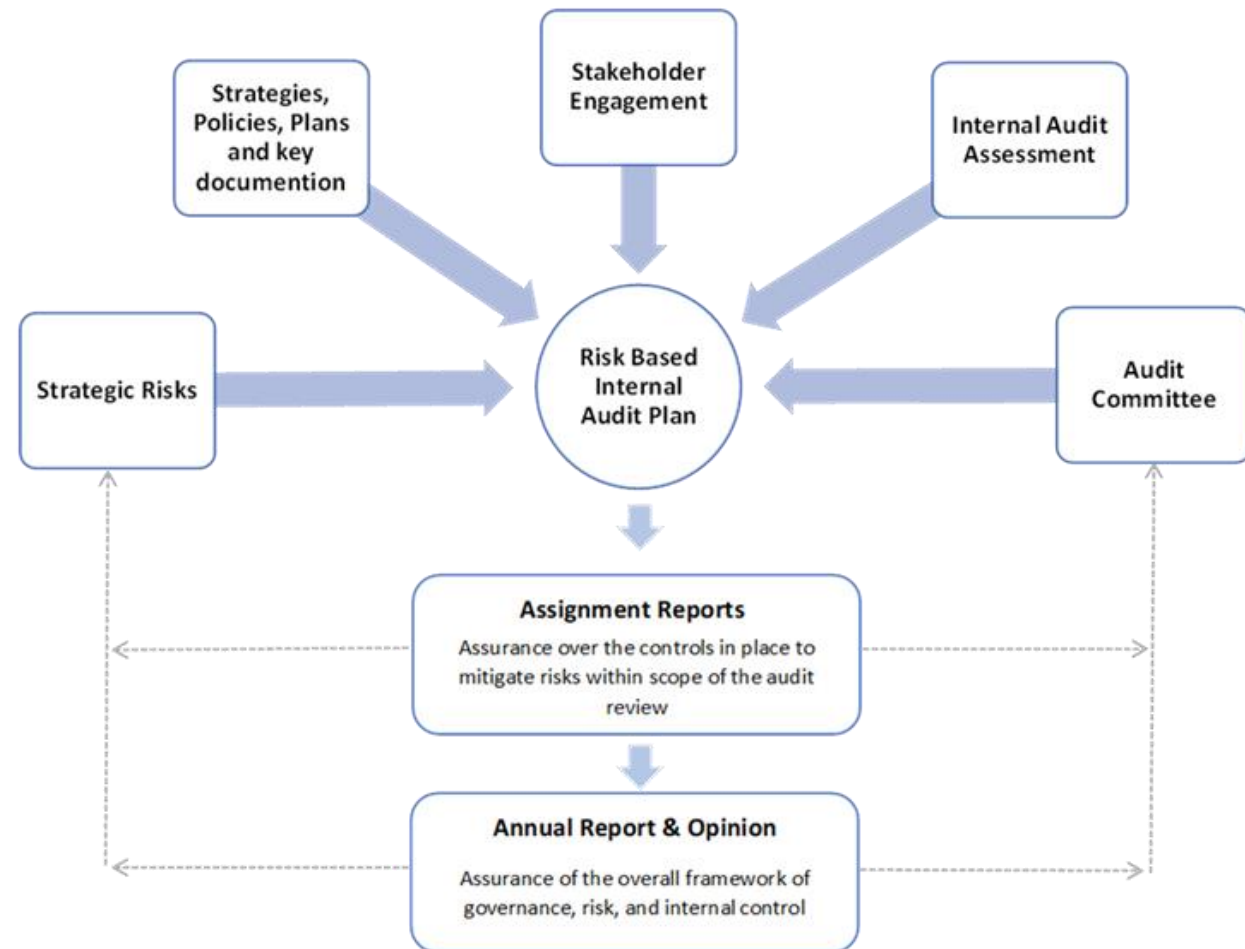
Based on conversations with key stakeholders, review of risk registers, key corporate documents and our understanding of the organisation, the Southern Internal Audit Partnership have developed an annual audit plan for the coming year.

Audit planning is a perpetual process throughout the course of the year to ensure we are able to react to new and emerging risks and the changing needs of the organisation.

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The Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers to ensure that duplication is minimised, and a suitable breadth of assurance is obtained.



Internal Audit Plan 2024-25 (including an indicative plan for 2025-26 and 2026-27)

Audit Review	Indicative Scope	24-25	25-26	26-27	Proposed Timing
Governance / Strategic					
Corporate Plan / Performance Management	Assurance over delivery of the Corporate Plan; underpinning strategies & plans; performance monitoring & reporting frameworks.	✓	-	✓	Q3
Transformation Programme	To provide assurance over the various stages of the Council's Transformation Programme from initialisation through to delivery and outcomes realisation.	✓	✓	✓	Q1-4
Climate Change and Nature Emergency / Green Agenda	Assurance over the Council's response to the Climate Change and Nature Emergency including governance, strategies, performance monitoring & reporting arrangements.	-	✓	-	
Corporate Governance Framework	Assurance over the corporate governance framework including the Annual Governance Statement, ethical governance, codes of conduct, complaints, compliments.	✓	✓	✓	Q1
Programme & Project Management	Review of the programme and project management framework and / or compliance to the framework in relation to live / ongoing projects.	✓	-	✓	Q3
Financial Resilience and Savings Realisation	Assurance over framework to ensure on-going financial resilience of the Council. Coverage over the audit cycle to include: <ul style="list-style-type: none"> • Medium Term Financial Strategy • Budget planning/setting (2024-25 focus) • Budget monitoring • Savings Realisation. 	✓	✓	✓	Q1-2
Commercial Activities	Effectiveness of income generation / maximisation including rental income and leases, review of associated fees and charges and acquisitions and disposals.	-	✓	-	
Alternative Delivery Methods / Partnership Working	Assurance over governance frameworks and / or focus on specific arrangements including rights of access, third party assurance, contingency arrangements, exit strategies, hosting arrangements, benefits realisation, and performance. Scope for 2024-25 to focus on relationships with Town and Parish Councils.	✓	-	-	TBC

Audit Review	Indicative Scope	24-25	25-26	26-27	Proposed Timing
Asset Management (Corporate Estate)	Assurance over effectiveness and delivery of the Asset Management Plan including planned and reactive repairs, maintenance of non-housing assets and statutory compliance checks.	✓	-	-	TBC
Information Governance	Assurance over the audit cycle on information governance arrangements including GDPR, DPA, FOI, Transparency etc.	✓	✓	✓	Q4
Procurement	Assurance over compliance with contract procedure rules and legislative requirements.	-	-	✓	
Contract Management	Review of contract management arrangements and / or compliance across a selection of 'key contracts'.	-	✓	-	
Fraud Framework	Cyclical assurance there are effective arrangements to prevent, detect and investigate fraud and irregularities. Annual provision to monitor the outcomes from proactive / reactive fraud work undertaken directly by the Council.	✓	✓	✓	Q1
Health & Safety	Assurance there is an appropriate H&S strategy in place with effective governance, accountability and issue resolution.	-	✓	-	
Business Continuity	Assurance over the governance framework and individual plans to maintain services after a major incident.	-	-	✓	
Emergency Planning	Assurance over the Council's plans and arrangements for dealing with extreme events.	✓	-	-	Q4
Risk Management	Assurance over the risk management framework including governance, transparency and maturity.	-	✓	-	
HR	Coverage over a three-year cycle to include: - <ul style="list-style-type: none"> • Workforce strategy & planning • Training & development • Recruitment • Performance management • Wellbeing & absence management. Scope for 2024-25 to focus on statutory responsibilities.	✓	✓	✓	Q1

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Audit Review	Indicative Scope	24-25	25-26	26-27	Proposed Timing
Core Finance Systems					
Housing Benefits		✓	-	-	Q2
Council Tax		-	✓	-	
NNDR		-	-	✓	
Accounts Payable		-	-	✓	
Accounts Receivable and Debt Management		-	✓	-	
Main Accounting and Reconciliations	Cyclical coverage of core systems to meet legislative requirements.	-	✓	-	
Payroll & Expenses		✓	-	-	Q2
Income Collection and Banking		-	-	✓	
Treasury Management		✓	-	-	Q3
Grant Certifications	Certification audit(s) as required.	✓	✓	✓	
IT					
IT Governance	Coverage over the audit cycle to consider: <ul style="list-style-type: none"> IT Strategy and Planning IT Asset Management Change Management Software Licencing Incident and Problem Management Service Desk. 	-	TBC	TBC	
Data Management	Coverage over the audit cycle to consider:	-	TBC	TBC	

Audit Review	Indicative Scope	24-25	25-26	26-27	Proposed Timing
	<ul style="list-style-type: none"> • Data Storage and data backup • Data Centre Facilities and Data Security • Capacity Planning and Monitoring. 				
Information Security	Coverage over the audit cycle to consider: - <ul style="list-style-type: none"> • Cyber Security • Cloud • Remote Access • Public Facing Internet Security • IT Security Policy. 	-	TBC	TBC	
Systems Development and Implementation	Proposed to cover two reviews in 2024-25. Application Lifecycle Management (Q2-3) – Assurance over the controls in place to ensure proactive management of application lifecycles/clarity over responsibilities. IT Project Delivery (Q3-4) – Review of the project management tools, methods and procedures to ensure IT projects are effectively delivered. There are clear links to the Transformation Programme/Digital Channel Shift which will be considered.	✓	TBC	TBC	Q2/3/4
IT Disaster Recovery Planning & Business Continuity	Coverage over the audit cycle to consider: <ul style="list-style-type: none"> • IT Business Continuity Planning • Disaster Recovery Planning • System Resilience 	-	TBC	TBC	
Networking and Communications	Coverage over the audit cycle to consider: <ul style="list-style-type: none"> • Firewall Management & Monitoring (2024-25 focus). • Network Security and Access Control • Network Infrastructure Management & Monitoring • Virtualisation • Operating System / Patch Management 	✓	TBC	TBC	Q1-2

Audit Review	Indicative Scope	24-25	25-26	26-27	Proposed Timing
	<ul style="list-style-type: none"> Telecommunications. 				
Service Reviews					
Housing Rents	Coverage to include rent setting, income collection and debt management.	-	✓	-	
Homelessness	Assurance that there is effective control to deliver strategic objectives and legislative requirements to prevent homelessness.	-	-	✓	
Housing Management	<p>Assurance over the arrangements to manage the Council's housing stock. Coverage over a three year cycle to include:-</p> <ul style="list-style-type: none"> Housing allocations Affordable housing Shared ownership Right to buy (2024-25 Focus). 	✓	✓	✓	Q2
Housing Asset Management	<p>Coverage over the audit cycle to provide assurances that all statutory obligations are met with the management of the Council's housing stock, including proactive and reactive repairs & maintenance, management of voids, safety checks etc.</p> <p>Proposed to cover four reviews in 2024-25:- Management of voids (Q3); Gas safety (Q4); Asbestos (Q4); and Lift inspections (Q2).</p>	✓	✓	✓	Q2/3/4
Housing Enforcement	Assurances over the inspection and enforcement of housing legislation including the licencing of HMOs.	✓	-	-	Q2
Disabled Facilities Grants	Administration and compliance with local / legislative requirements to enable adaptations to people's homes.	-	-	✓	
Planning / Development Management	Assurance over areas such as the end-to-end planning processes, Community Infrastructure Levy (CIL), S106 agreements / developer obligations.	✓	-	✓	Q4
Building Control	Review of policy and processes in line with legislative requirements.	✓	-	-	TBC

Audit Review	Indicative Scope	24-25	25-26	26-27	Proposed Timing
Regeneration / Economic Development	Review of strategic approach for regeneration and / economic development including performance measures and reporting outcomes.	-	✓	-	
Grounds / Trees / Open Spaces	Assurance over the maintenance and management of open spaces / Tree Maintenance and management including Ash Die Back.	-	✓	-	
Fleet Management	Administration, procurement and maintenance of the Council's vehicle fleet.	-	✓	-	
Environmental Services	To review refuse collection, recycling and street cleansing and the implementation of the waste strategy. 2024-25 focus the new waste strategy.	✓	✓	-	Q1
Environmental Health	Assurance over the Council's legal obligations for Environmental Health.	✓	-	-	Q2
Licensing	Assurances over safeguarding, income collection, application process and monitoring.	✓	-	-	Q4
Parking / Enforcement	Review of parking and enforcement processes including administration of Fixed Penalty Notices and car park income collection.	-	-	✓	
Service Specific Reviews	Provision for service specific reviews identified through annual planning process to address changing risks, strategic priorities, legislative changes, management concerns etc.	✓	✓	✓	
Telecare	To provide assurance on the arrangement to manage the Telecare Service including processes to manage new, changing or leaving customers and income collection.	-	-	✓	
Cemeteries	To provide assurance on the processes and procedures for the management of cemeteries.	✓	-	-	Q3
National Park Authority	Provision of audit days to fulfil the Council's SLA with the NPA.	✓	✓	✓	
Management	Provision for audit planning, reporting, Audit Committee, monitoring, liaison, follow-up and advice.	✓	✓	✓	Q1-4
Total Days					400

AUDIT COMMITTEE – 22 MARCH 2024

FINANCIAL REGULATIONS REVIEW

1. RECOMMENDATIONS

- 1.1 That the Audit committee support revisions to the Council's Financial Regulations and recommend to Council the adoption of the new regulations with effect from 8 April 2024.

2. INTRODUCTION

- 2.1 To seek approval to update the Council's Financial Regulations.

3. BACKGROUND

- 3.1 The Council's Financial Regulations need to be reviewed regularly to ensure they reflect the current policy and practise required by the Council, including due regard to the current organisational structure.
- 3.2 A broader review of Financial Regulations is due to be undertaken, however considering the recent appointments to both the Monitoring Officer role and Strategic Procurement Manager position, additional time is required to allow an effective review to include valuable input from these post holders including updates to the Contract Standing Orders.
- 3.3 At this time, only a few minor changes are being proposed; to update approval values and insert the Assistant Director positions into approval workflow.

4. SUMMARY OF AMENDMENTS

- 4.1 The changes proposed at this stage are to the approval table for authorisations required for budget transfers, virements and supplementary estimates and the thresholds for certifying payments, to align with the new management structure. This includes the Assistant Director positions, and an increase in Senior/Service Manager (bands 10 and 11) upper threshold limits of £10,000 (to £280,000 for Virement and to £140,000 for Supplementary budget).
- 4.2 The current and proposed financial regulations authorisation levels for budget transfers, virements and supplementary estimates can be found at **Appendix 1** and **Appendix 2**.
- 4.3 The thresholds for the certifying of manual and electronic payments, current and proposed are at **Appendix 3** and **Appendix 4**.

5. CONCLUSIONS

- 5.1 Up-to-date Financial Regulations support the Section 151 Officer in directing the Council's financial affairs and ensure the proper administration of the financial affairs of the Council. They are also another central point of reference for managers, which form a mandatory framework for financial administration in New Forest District Council.

6. FINANCIAL IMPLICATIONS

- 6.1 There are no direct financial implications as a result of this report. The revisions do however empower managers across the Council to make financial decisions in their service areas. As a matter of course, managers will be expected to consult and brief their respective Portfolio Holders on the matters affecting their budgets, on a regular basis.

7. CRIME & DISORDER IMPLICATIONS

- 7.1 There are no implications as a result of this report.

8. ENVIRONMENTAL IMPLICATIONS

- 8.1 There are no implications as a result of this report.

9. EQUALITY & DIVERSITY IMPLICATIONS

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

10. DATA PROTECTION IMPLICATIONS

- 11.1 There are no data protection implications arising from this report.

For further information please contact:

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Background Papers:

None

NFDC FINANCIAL REGULATIONS SUMMARY - AUTHORISATION LEVELS REQUIRED (CURRENT)

Table 1: Authorisations Required for Budget Transfers, Virements & Supplementary Budgets							
Value	S151 Officer	Service Manager	Executive Head	Portfolio Holder	Finance Portfolio Holder	Cabinet	Council
Transfers: Any Value	Y	Y					
Virements:							
<= £25,000	Y	Y					
£25,001 - £50,000	Y	Y	Y	Y			
£50,001 - £270,000 revenue	Y	Y	Y			y	
£50,001 - £270,000 capital	Y	Y	Y	Y	y		
> £270,000	Y	Y	Y			Y	Y
Supplementary Budgets:							
<= £10,000	Y	Y					
£10,001 - £50,000	Y	Y	Y	Y	Y		
£50,001 - £130,000 revenue	Y	Y	Y			Y	
£50,001 - £130,000 capital	Y	Y	Y	y	y		
> £130,000	Y	Y	Y			Y	Y

NFDC FINANCIAL REGULATIONS SUMMARY - AUTHORISATION LEVELS REQUIRED (PROPOSED)

Table 1: Authorisations Required for Budget Transfers, Virements & Supplementary Budgets								
Value	S151 Officer	Senior/ Service Manager (Band 10-11)	Assistant Director	Strategic Director	Portfolio Holder	Finance Portfolio Holder	Cabinet	Council
Transfers: Any Value	Y	Y						
Virements:								
<= £25,000	Y	Y						
£25,001 - £50,000	Y	Y	Y	Y	Y			
£50,001 - £280,000 revenue	Y	Y	Y	Y			Y	
£50,001 - £280,000 capital	Y	Y	Y	Y	Y	Y		
> £280,000	Y	Y	Y	Y			Y	Y
Supplementary Budgets:								
<= £10,000	Y	Y						
£10,001 - £50,000	Y	Y	Y	Y	Y	Y		
£50,001 - £140,000 revenue	Y	Y	Y	Y			Y	
£50,001 - £140,000 capital	Y	Y	Y	Y	Y	y		
> £140,000	Y	Y	Y	Y			Y	Y

11. PAYMENT OF ACCOUNTS (CURRENT)

GENERAL PRINCIPLES

- 11.1 Service Managers, or their authorised officers, will certify all payments for goods, supplies or services.

PRACTICES, PROCEDURES AND SYSTEMS

- 11.1.1 The Section 151 Officer will approve manual and electronic procedures for certifying payments. The current thresholds are as follows:

Budget Administration Officer	up to £10,000
Budget Responsible Officer	£10,000-£50,000
Service Manager	£50,000-£270,000
Executive Head	£270,000 - £5m
Chief Executive and Statutory Officers	over £5m

- 11.1.2 A Service Manager may authorise an officer in his/her department to certify official orders, accounts for payment and salary and wages records.
- 11.1.3 Service Managers shall keep a record of the specimen signatures or passwords of officers who are authorised to certify accounts for payment. The record must be in a form acceptable to the Section 151 Officer. Service Managers must send copies of specimen signatures or passwords to the Section 151 Officer.
- 11.1.4 Service Managers shall immediately notify the Section 151 Officer when an authorised officer leaves the employment of the Council.
- 11.1.5 All payments for goods, supplies or services must be invoiced and will ordinarily be supported with a purchase order number.

11. PAYMENT OF ACCOUNTS (PROPOSED)

GENERAL PRINCIPLES

- 11.1 Senior/Service Managers, or their authorised officers, will certify all payments for goods, supplies or services.

PRACTICES, PROCEDURES AND SYSTEMS

- 11.1.1 The Section 151 Officer will approve manual and electronic procedures for certifying payments. The current thresholds are as follows:

Budget Administration Officer	up to £10,000
Budget Responsible Officer	£10,000-£50,000
Senior/Service Manager	£50,000-£280,000
Assistant Director	£280,000-£2m
Strategic Director	£2m - £5m
Chief Executive and S151 Officer	over £5m

- 11.1.2 A Senior/Service Manager may authorise an officer in his/her department to certify official orders, accounts for payment and salary and wages records.
- 11.1.3 Senior/Service Managers shall keep a record of the specimen signatures or passwords of officers who are authorised to certify accounts for payment. The record must be in a form acceptable to the Section 151 Officer. Senior/Service Managers must send copies of specimen signatures or passwords to the Section 151 Officer.
- 11.1.4 Senior/Service Managers shall immediately notify the Section 151 Officer when an authorised officer leaves the employment of the Council.
- 11.1.5 All payments for goods, supplies or services must be invoiced and will ordinarily be supported with a purchase order number.

AUDIT COMMITTEE – 22 MARCH 2024

PCI DSS UPDATE

1. RECOMMENDATIONS

1.1 It is recommended that the Audit committee note the contents of this report.

2. INTRODUCTION

2.1 Payment card industry data security standard (PCI DSS) is the global security standard for all organisations that store, process or transmit cardholder data and/or sensitive authentication data.

2.2 There are 4 PCI DSS compliance levels. New Forest District Council (NFDC) falls into Level 3: for merchants that process 20,000 to 1 million transactions annually. As a Level 3 Merchant NFDC has a requirement to submit a self-assessment questionnaire (SAQ) annually, conduct approved scanning vendor (ASV) scans quarterly and complete the attestation of compliance (AOC) form.

2.3 Organisations that handle cardholder data, even if only momentarily, are required to comply with over 300 security protocols under PCI DSS. However, by outsourcing handling cardholder data to PCI DSS accredited third party service providers this is reduced to just over 20 security controls.

2.4 Payment card industry data security standards (PCI DSS) accreditation at NFDC has previously received high priority recommendations through the internal audit plan.

3. PROGRESS MADE TOWARDS PCI DSS COMPLIANCE

3.1 NFDC has been working towards outsourcing handling cardholder data to PCI DSS accredited third party service providers. These solutions work in a way such that no cardholder data ever enters NFDC systems.

3.2 The table below details the current progress.

Payment Channel	Status
Information Offices Pin Entry Devices (PEDs)	Outsourced
Car Park Terminal Payments	Outsourced
Automated Telephone Payments (ATP)	Outsourced
Web Payments	Outsourced
Keyhaven River Pin Entry Devices (PEDs)	Outsourced
Agent Referred Payments (ARP)	Work in Progress
Keyhaven River Telephone Payments	Work in Progress

3.3 The project team continues to engage with third party service providers to obtain confirmation of PCI DSS accreditation annually.

3.4 Guidance has been provided to officers involved in card payment processes outlining their roles and responsibilities regarding PCI DSS compliance.

4. DIFFICULTIES ENCOUNTERED WITH PCI COMPLIANCE

4.1 Historically, when taking telephone payments customers verbally provided their card details over the phone for agents to enter manually into the payment system. This

practice meant that cardholder data entered NFDC systems and increased the security protocols required to be PCI compliant.

- 4.2 In January 2023 a new Agent Referred Payments (ARP) system was implemented whereby customers calls are transferred/forwarded to a secure payment line where the customer enters their card details using their telephone keypad. The secure payment line is hosted and owned by a PCI compliant third-party service provider and cardholder data never enters NFDC systems.
- 4.3 This system operates as an “end call” solution. Once the call is transferred to the payment line it cannot be retrieved if the customer is struggling with their payment.
- 4.4 Since going live there has consistently been around a 20% failure rate for this type of payment. The main reason for the payment failure is due to the customer entering invalid card details or not entering # to proceed with their payment.
- 4.5 To support vulnerable customers the Executive Management Team (EMT) approved the use of an assisted payment form to complete telephone payments, with customers providing their card details verbally. This has been implemented as a temporary solution whilst alternative PCI compliant options are investigated, such as a “mid-call” solution that would allow the NFDC officer to retrieve calls where the customer is struggling to help guide them through the process.
- 4.6 Officers have been issued with guidance advising them that the assisted payment form is only to be used for vulnerable customers who are not able to use an alternative payment channel. Managers are able to monitor the use of the assisted payment form and track usage at an individual call agent level. No card details entered into the assisted payment form are retained by the Council. The majority of telephone payments continue to be taken using the PCI compliant ARP system.
- 4.7 Keyhaven River are unable to use the ARP system for telephone payments as their telephone line does not allow for call forwarding. ICT are in the process of moving Keyhaven River over to Teams for calls, which would offer this functionality. Telephone payment volumes at Keyhaven are very low.

5. NEXT STEPS

- 5.1 Continue to engage with NFDC officers involved in the payment process regarding their roles and responsibilities in ensuring PCI DSS compliance.
- 5.2 Continue investigations into alternative solutions for telephone payments for vulnerable customers.
- 5.3 Implement the ARP system for telephone payments at Keyhaven River once they have successfully migrated to teams.

6. FINANCIAL IMPLICATIONS

- 6.1 The development of an alternative ARP solution (such as mid-call) will incur project delivery costs. These costs will need to form the part of the ICT work programme.

7. CRIME & DISORDER / EQUALITY & DIVERSITY / ENVIRONMENTAL IMPLICATIONS

- 7.1 There are none.

8. DATA PROTECTION IMPLICATIONS

8.1 Any exposure of cardholder data without authorisation is considered a breach for both PCI and GDPR.

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AUDIT COMMITTEE – 22 MARCH 2024

HOUSING MAINTENANCE FRAUD MATTER

1. Introduction

- 1.1 This report sets out information regarding the fraudulent activity that took place within the Council's Housing Maintenance Service during the months between July 2018 to February 2019.
- 1.2 It explains how the fraudulent activity of an individual staff member was detected, what steps were immediately taken and an overview of the criminal proceedings that followed.

2. Background

- 2.1 On 23 January 2019, the Housing Maintenance Service Manager became aware of a significant and unexpected spike in expenditure on reactive maintenance of Council properties. An incremental increase over a 6 month period was discovered during scheduled budget review meetings between the Housing Maintenance Service Manager and the Service Accountant. The Council's Section 151 officer was made aware on 5 February 2019, and an internal investigation was immediately launched. A summary of the facts ascertained during that investigation are set out below.
- 2.2 In July 2018, a Council employee, Richard Cullen, a Housing Maintenance Officer (who had been employed by the Council since 2012) instigated a new supplier, Alltype Roofing Limited, to whom maintenance works totalling £407,373, were awarded over the period from August 2018 to February 2019. The Director of that company (now dissolved) is Stephen Leggett.
- 2.3 Housing Maintenance Officers are required to arrange necessary reactive maintenance work to Council owned properties. They either identify the remedial work required themselves (whilst out on estate visits), or matters are referred to them by other supervisors/managers. The Maintenance Officer will then proceed to arrange for the work to be done, usually using external contractors and to arrange payment for that work.
- 2.4 Each Maintenance Officer is a Budget Responsible Officer under the Council's financial procedures and, at this time, had the ability to raise and approve individual works and invoices up the value of £10,000.
- 2.5 A total of 94 invoices were paid to Alltype Roofing Limited between August 2018 and February 2019 by Richard Cullen, all of which were under £10,000. However, the investigation revealed that invoices in respect of the jobs given to the company by Richard Cullen had been deliberately manipulated to ensure that any invoice did not exceed the limit of £10,000. For example, the re-roofing of a block of garages was broken down, garage by garage, so that each invoice did not exceed the £10,000 limit, which resulted in 13 individual invoices, each for £2,795 (in this example) being paid by Richard Cullen for the re-roofing of an entire garage block. The correct approach for such a job would have been the payment of one invoice for the entire work at a cost of £36,335, but this would have been outside of Richard Cullen's authority under the Council's financial rules, and outside the scope of the 'reactive' role.

- 2.6 The internal investigation also revealed a significantly higher than expected price was paid to Alltype Roofing Limited for the work carried out, and in a number of incidents, it was suspected that some of the work was not required at all. Further information concerning the overcharging aspect is set out below in section 4.
- 2.7 During the course of the internal investigation, and when it became clear that there was evidence of fraudulent activity, the Police were called in. Police Officers attended a meeting at ATC with NFDC officers on the 12 February 2019 (1 week after the initial suspicions were raised with the Section 151 Officer).
- 2.8 The Police investigation has taken a number of years due to the complexity of the matter and a widening of their lines of enquiry relating to others outside of the Council, and other criminal matters which have no bearing on the Council. What has transpired during the police investigation is that another ex-employee of the Council's, Mark Diaper (who was employed by NFDC between August 2017 and April 2018) was also involved in the fraudulent activity that took place between August 2018 and February 2019. Mr Diaper worked for Alltype Roofing Limited and physically carried out the work that was awarded by Richard Cullen.
- 2.9 After a lengthy Police investigation, charges were brought against Richard Cullen, Mark Diaper and Stephen Leggett. Section 5 below sets out the criminal charges that followed and the outcome of the criminal proceedings.
- 2.10 Following the internal investigation, Richard Cullen was dismissed from the Council's employment. The Council has worked closely with the Police to assist them with their enquiries throughout the investigation.

3. Steps Taken

- 3.1 When it became clear, during the course of the Council's internal investigation, that fraudulent activity had taken place, senior officers of the Council immediately instigated an Action Plan. This included immediate actions to adjust procedures for the setting up of new suppliers and upgraded arrangements to ensure that appropriate segregation between the raising and paying of orders (from feeder systems) was implemented.
- 3.2 Invoices approved totalling £5,450 scheduled to be paid on 7 February 2019 to Alltype Roofing Limited were discovered in sufficient time for them to be removed from the Accounts Payable BACs run before it was completed by the bank. Alltype Roofing Limited were immediately suspended as a supplier within the finance system; this also prevented a further invoice totalling £1,755 being processed.
- 3.3 Interim measures also included specific senior manager approval on a wider range of matters than before. The need to introduce these additional controls had to be finely balanced against the impact on efficiency by having significantly more approval processes in place, bearing in mind the Housing Maintenance Service deals with approximately 7,000 external invoices totalling in excess of £7 million on an annual basis.
- 3.4 The revised internal controls were reviewed through a specific and tailored internal audit review. Internal Audit also remained engaged and kept up to speed throughout the action plan development and delivery. Their review concluded that although an initial detailed scheme of financial authorisation was put into place whereby approval limits for HMO's was reduced to £500, any orders above this limit would be routed to

the Housing Maintenance Operations Manager or above (at the time of the review), it was considered to be a restrictive approval structure to enable long term resilience.

- 3.5 The Internal Audit review also commented on the need to provide a more robust and useful management reporting functionality. It was suggested that reports should be considered which will highlight levels of spend by order value, contractor engagement or by HMO. These areas of concern have been addressed as detailed in the points below.
- 3.6 The Council's external auditor was also informed of the incident, and had due consideration to it in their audit assurance work in the period immediately after the incident. No concerns were raised on overall governance arrangements at the Council by the auditor over this period.
- 3.7 Since this incident, the Council's central procurement team provide all Service Managers with detailed spend analysis reports (3 x per year on a per-supplier basis) in respect of their areas of responsibility. In addition, the Service Manager with responsibility for Housing Maintenance (being the largest service in terms of third-party spend and supplier numbers) undertakes a monthly spend analysis report across all business activity areas, and in particular tracking contractor and material spend.
- 3.8 The Council continued to implement enhanced procurement methods to minimise the risk further, which resulted in a comprehensive review of how the Housing Service procures external work. A Multi-Contractor Framework Agreement for Minor Works has been introduced following open competitive tender, supported by a Minor Works Framework (MWF) User Guide. The aim of the MWF was to establish a list of approved and experienced contractors covering 19 work categories ('Lots') and tightened the Request for Quotation (RFQ) to Payment Process ensuring segregation of duties throughout.
 - 3.8.1 All work requests called-off through the MWF are subject to the issuing of a 'Request to Quote' form. The RFQ costs are validated and approved by a Budget Responsible Officer. Official Purchase Orders are raised by Purchase Coordinators cross referencing the RFQ to allow the Contractor to commence work. Any PO where a line value is in excess of £500, routes to the budget responsible officer to approve or decline.
 - 3.8.2 On completion of the commissioned work, the Contractor requests the issue of a 'Work Completion Certificate' (WCC) from the requesting officer. The Council's Purchasing Coordinator will use the WCC form to complete the Goods/Service Receipt (Goods Receiving Note) process in the Councils' Finance Management System (Unit4). The WCC enables the contractor to submit their invoice for payment. The Contractor's invoice must reference the official purchase order number with the WCC attached and submitted to the Council's Accounts Payable team as set out in the terms of the contract.
- 3.9 Other matters addressed by the action plan;

3.9.1 Suspension Procedures

Richard Cullen was suspended from work on 28 January 2019 and it was established that, whilst suspended, Cullen had accessed NFDC systems to instigate new Purchase Orders and approve invoices. The suspension procedures were immediately reviewed, as it was not at that time, procedure to retain any Council Equipment from an employee. The Procedure on Conducting

a Disciplinary Investigation was updated initially in February 2019 (and updated again since) to state that when a member of staff is suspended the following action will be taken as a precaution;

- Their laptop and any other device(s) is/are to be returned
- ICT access for any device the employee may have is to be disabled
- Any keys to council premises are to be returned
- If they use a council vehicle, arrangements are to be made for this to be returned
- Their identity card is to be returned and will be deactivated

3.9.2 Pre-employment Checks

At the time of Richard Cullen's initial employment, there were three types of criminal record check available; standard, enhanced and enhanced with children's and/or adults barred list checks. There were strict limitations on the roles that were eligible for such checks, and roles had to fall within those included in the Rehabilitation of Offenders Act (ROA) 1974 (Exceptions) Order 1975. The post to which Richard Cullen was appointed was not one for which a check could be made. In September 2019 an additional check was introduced, the basic check. The basic check can be used for any position or purpose. A basic certificate will contain details of convictions and cautions for the Police National Computer (PNC) that are considered to be unspent under the terms of the Rehabilitation of Offenders Act (ROA) 1974. All new employees (since October 2019) are now asked to complete a basic DBS check before their employment is confirmed. Should a DBS check come back with convictions or cautions, then consideration is given (by the recruiting manager) to the nature of the conviction, when it was and the role the candidate is applying for. In addition to new staff, basic checks were also carried out for all existing staff within Housing Maintenance.

3.9.3 Workflow Approval

The Council began work to implement a new finance system during 2018. It ultimately went live on 1/4/2020. The Audit Committee received a report on the 29th October 2021 (the report delayed after system go-live due to the pandemic), confirming the new approval processes as built into the new finance system, in summary;

- The procure-to-pay (P2P) workflow process works on the basis of a "three-way match", whereby 1) an approved Purchase Order with 2) confirmation of goods or service delivery, matches 3) a correctly submitted Invoice quoting the relevant Purchase Order number. Each of these stages requires input from a different person in the organisation. This is to ensure that no single officer can instigate, approve and sign off a single order and payment, without another officer being involved at a particular stage in the process.
- The workflow process will not allow a Purchase Coordinator to authorise their own requisition (>£500) and will instead escalate it to their manager.
- All requests to add a new supplier to the system must have Service Manager approval and be subject to a check by the Procurement team before being set up.
- Officers who are 'Budget Responsible' have this written into their Job Descriptions, and it is the responsibility of the relevant Service Manager to ensure that they are aware of their responsibility to ensure value for money

is achieved in every purchase, and to protect the public purse against fraud or misuse.

- Internal Audit have a standing 'Accounts Payable' item included within the annual audit plan and cover workflow testing as part of their annual coverage.
- All officers who are budget responsible must also work within the Council's standing orders. This document sets out the various procurement thresholds that must be adhered to. Compliance is monitored by the Council's centre-led Procurement Team. The Audit Committee receives an annual report on CSO waivers.

4. Potential Loss to the Council

- 4.1 A total of £407,373 was authorised to Alltype Roofing Limited over the period August 2018 and February 2019. Richard Cullen was responsible for £374,392 (92%) of the orders.
- 4.2 Four invoices were received (as part of the £407,373 authorised) totalling £7,205, but these were intercepted before payment was released. Payments made totalled £400,168, with Richard Cullen responsible for £367,187 (92%). Other Maintenance officers made some use of Alltype Roofing Limited which, upon review, was not found to be improper.
- 4.3 During the course of the trial, experts for both the Crown and the Defence gave their view on the overcharging element of the works. This ranged between 53% and 65% which when extrapolated, equates to sums of £139,000 and £158,000 respectively.
- 4.4 The Council was overcharged an amount between these 2 figures for the works carried out.

5. Criminal Proceedings

- 5.1 The Police investigation resulted in Richard Cullen, Mark Diaper and Stephen Leggett being charged with 'Conspiracy to Defraud' based on the following:-
- (i) submitting fraudulent claims for payment for property maintenance works on behalf of Alltype Roofing to New Forest District Council
 - (ii) overcharging New Forest District Council for the said property maintenance works and,
 - (iii) arranging for Richard Cullen in his capacity as a maintenance officer employed by New Forest District Council to authorise payment of the fraudulent claims Contrary to Common Law.
- 5.2 There was additional bribery charges against Mark Diaper and Stephen Leggett where it was alleged they gave a financial advantage to Richard Cullen, intending to reward him for the improper performance of his function as a maintenance officer by placing orders for property maintenance works with Alltype Roofing Limited, and authorising payment of fraudulent claims for the property maintenance works submitted by them.
- 5.3 In addition, there was a specific charge of bribery against Richard Cullen where it was alleged that he accepted a financial advantage as a reward for the improper

performance of his functions as a maintenance officer by placing orders for property maintenance works with Alltype Roofing Limited, and authorising payment of fraudulent claims for the works submitted.

- 5.4 Following the entering of not guilty pleas by all 3 defendants, both Richard Cullen and Mark Diaper changed their pleas to guilty at Court hearings in January 2023 in respect of all the charges laid against them.
- 5.5 Stephen Leggett continued with his plea of not guilty and at his trial in June 2023, he was found not guilty of the conspiracy to commit fraud charge. As the jury were unable to decide on the bribery charge, a new trial date was set for January 2024. The trial for Stephen Leggett commenced 02 January 2024 but again the jury could not reach a majority verdict therefore on the 09 January 2024 it was announced as another hung jury. The CPS have made the decision to not pursue another trial against Mr Leggett.
- 5.6 Sentencing of Richard Cullen and Mark Diaper took place on 15 February 2024 at Southampton Crown Court whereby Richard Cullen was sentenced to 58 months in prison and Mark Diaper was sentenced to 32 months in prison.

6. Conclusion

- 6.1 This was a matter that involved the committing of serious criminal offences by several individuals, which resulted in financial loss to the Council. The individuals who committed the criminal offences have received significant penalties for their conduct.
- 6.2 When management first identified the suspected fraudulent activity, the Council took immediate steps to restrict approval levels and segregation for the award and payment of external contractors within Housing Maintenance. More fundamental reviews were also instigated in respect of procurement practices across housing leading to new more robust supply chain models covering Materials Supply, Minor Works and Specialist Services contracts. A new Contracts Relationship Officer role within the corporate procurement team also supports the Housing Service in supply chain pipeline, procurement, evaluation and award and contract term performance management in ensuring value for money.
- 6.3 Further actions were taken to tighten up on suspension procedures, additional pre-employment checks are now undertaken and the financial system workflow underwent a complete overhaul as a result of the implementation of the new system in 2020. New reporting is also issued on a regular basis, overseen by the Council's Central procurement team (including the 3 x embedded Contract Relationship Officer roles).
- 6.4 Internal Audit remained engaged throughout and tailored their audit planning to ensure internal controls and follow up actions were robustly overviewed in light of this incident.
- 6.5 External Audit were also kept abreast of the incident.
- 6.6 The uniqueness of this fraud has been identified with one internal individual allowing himself to be bribed and by-passing some internal controls already in place to misappropriate public funds.
- 6.7 Due to the nature of the service an element of risk occurs if you wish to operate an efficient effective service. However, from the internal review risks have been identified

and as detailed in this report enhanced procedures have been implemented therefore significantly reducing the risk of fraud.

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Background Papers

None

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AUDIT COMMITTEE WORK PROGRAMME 2024/2025

ITEM	METHOD	LEAD OFFICER
31 MAY 2024		
Treasury Management Out Turn Report 23/24	Written Report	Gemma Farley (HCC)
External Audit Plan 23/24	Written Report	Simon Mathers / Katie Lean (External Audit)
Draft Annual Financial Report 23/24	Written Report	Alan Bethune
Draft Annual Governance Statement 23/24	Written Report	Alan Bethune / Tanya Coulter
Code of Good Governance Review 23/24	Written Report	Alan Bethune/ Tanya Coulter
Bad Debt Write Offs 23/24	Written Report	Ryan Stevens
Annual Fraud Report 23/24	Written Report	Ryan Stevens
Internal Audit Opinion Report 23/24	Written Report	Antony Harvey
26 JULY 2024		
External Audit Results Report 2022/23	Written Report	Simon Mathers / Katie Lean (External Audit)
Final Annual Governance Statement 2022/23	Written Report	Alan Bethune / Tanya Coulter
Final Annual Financial Report 2022/23	Written Report	Alan Bethune
Financial Regulations Review	Written Report	Alan Bethune

ITEM	METHOD	LEAD OFFICER
Treasury Management Update	Written Report	Gemma Farley (HCC)
Strategic Risk Register Update	Written Report	James Clarke
25 OCTOBER 2024 (May be superseded by new meeting on 27 September 2024 TBC)		
Internal Audit Progress Report 24/25	Written Report	Antony Harvey (Internal Audit)
Treasury Management Update	Written Report	Gemma Farley (HCC)
24 JANUARY 2025		
Internal Audit Progress Report 24/25	Written Report	Antony Harvey (Internal Audit)
Treasury Management Strategy 25/26 (Including Prudential Indicators)	Written Report	Gemma Farley (HCC)
Investment Strategy 2025/26	Written Report	Alan Bethune
Strategic Risk Register Update	Written Report	James Clarke
21 MARCH 2025		
External Audit Results Report 23/24	Written Report	Simon Mathers / Katie Lean (External Audit)
Annual Governance Statement 2023/24	Written Report	Alan Bethune / Tanya Coulter
Annual Financial Report 2023/24	Written Report	Alan Bethune
Internal Audit Progress Report 2024/25	Written Report	Antony Harvey (Internal Audit)

ITEM	METHOD	LEAD OFFICER
External Audit Plan 24/25	Written Report	Simon Mathers / Katie Lean (External Audit)
Internal Audit Charter 2025-26	Written Report	Antony Harvey (Internal Audit)
Internal Audit Plan 2025-26	Written Report	Antony Harvey (Internal Audit)

Created 20.10.23

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