

NOTICE OF MEETING

Meeting: AUDIT COMMITTEE

Date and Time: FRIDAY, 31 MAY 2024, AT 9.30 AM

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

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PUBLIC INFORMATION:

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.

Members of the public are welcome to attend this meeting. The seating capacity of our Council Chamber public gallery is limited under fire regulations to 22.

Members of the public can watch this meeting live, or the subsequent recording, on the [Council's website](#). Live-streaming and recording of meetings is not a statutory requirement and whilst every endeavour will be made to broadcast our meetings, this cannot be guaranteed. Recordings remain available to view for a minimum of 12 months.

PUBLIC PARTICIPATION:

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; 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 attend the meeting, or speak in accordance with the Council's public participation scheme, should contact the name and number shown above no later than **12.00 noon on Tuesday, 28 May 2024.**

Kate Ryan
Chief Executive

Appletree Court, Lyndhurst, Hampshire. SO43 7PA
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AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meetings held on 22 March 2024 and 13 May 2024 as correct records.

2. DECLARATIONS OF INTEREST

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

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

3. PUBLIC PARTICIPATION

To receive any public participation in accordance with the Council's public participation scheme.

4. HOUSING BENEFIT ASSURANCE TESTING 2022/23

To receive a presentation from KPMG on Housing Benefit Assurance Testing for 2022/23.

5. TREASURY MANAGEMENT OUT TURN REPORT 2023/24 (Pages 5 - 20)

To receive the Treasury Management Out Turn Report for 2023/24.

6. EXTERNAL AUDIT PLAN 2023/24 (Pages 21 - 76)

To receive the External Audit Plan for 2023/24.

7. INTERNAL AUDIT OPINION REPORT 2023/24 (Pages 77 - 92)

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

8. CODE OF GOOD GOVERNANCE REVIEW 2023/24 (Pages 93 - 102)

To consider the Code of Good Governance Review for 2023/24.

9. DRAFT ANNUAL GOVERNANCE STATEMENT 2023/24 (Pages 103 - 116)

To consider the draft Annual Governance Statement for 2023/24.

10. DRAFT ANNUAL FINANCIAL REPORT 2023/24 (Pages 117 - 130)

To consider the draft Annual Financial Report for 2023/24.

11. FINAL ACCOUNTS 2023/24 BAD DEBT WRITE-OFF REPORT (Pages 131 - 138)

To receive the bad debts write offs report for 2023/24.

12. ANNUAL FRAUD REPORT 2023/24 (Pages 139 - 142)

To receive the annual fraud report for 2023/24.

13. AUDIT COMMITTEE WORK PLAN (Pages 143 - 144)

To note the Audit Committee's Work Plan.

14. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

To:

Councillors

Alan Alvey (Chairman)
Keith Craze (Vice-Chairman)
Kate Crisell
Jack Davies
Jacqui England

Councillors

Alan O'Sullivan
Caroline Rackham
Janet Richards
Richard Young

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AUDIT COMMITTEE 31 MAY 2024

TREASURY MANAGEMENT ANNUAL OUTTURN REPORT 2023/24

1. PURPOSE

- 1.1. New Forest District Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Treasury Management Code), last updated in 2021. The CIPFA Treasury Management Code requires the Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2023/24.

2. SUMMARY

- 2.1. The Council has adopted the CIPFA Treasury Management Code which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports. This report includes the requirement in the CIPFA Treasury Management Code 2021, mandatory from April 2023, of reporting of the treasury management prudential indicators.
- 2.2. The Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2024. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.
- 2.3. Treasury management in the context of this report is defined as:

“The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 2.4. This annual report sets out the performance of the treasury management function during 2023/24, to include the effects of the decisions taken and the transactions executed in the past year.
- 2.5. Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since March 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.
- 2.6. All treasury activity has complied with the Council's Treasury Management Strategy and Investment Strategy for 2023/24, and all

relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the Council's treasury advisers, Arlingclose.

- 2.7. In compliance with its duties to determine affordable borrowing limit, local authorities must have regard to CIPFA's Prudential Code of Capital Finance in Local Authorities (the Prudential Code) which includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council in February 2024.

3. EXTERNAL CONTEXT

- 3.1. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2023/24.

Economic commentary

- 3.2. UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February 2024, but was still above the Bank of England's (BoE) 2% target at the end of the period.
- 3.3. The UK economy entered a technical recession in the second half of 2023. Over the 2023 calendar year GDP (gross domestic product) growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Quarter 1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.
- 3.4. Having begun the financial year at 4.25%, the BoE's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023. This rate was maintained to March 2024.
- 3.5. In the February 2024 Monetary Policy Report the BoE's expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in the second half of 2023 being gradual. Headline CPI was forecast to dip below the 2% target quicker than previously thought due to declining energy prices; these effects would hold inflation slightly above target for much of the forecast horizon.
- 3.6. Following this MPC meeting, the Council's treasury adviser, Arlingclose, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in the second half of 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

Financial markets

- 3.7. Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October 2023 they started declining again before falling sharply in December 2023 as falling inflation and central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January 2024 that inflation was stickier than expected and the BoE and the Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 0.5%+ higher than when it started.

Credit review

- 3.8. In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.
- 3.9. Credit default swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices began the financial year at elevated levels following the fallout from Silicon Valley Bank and collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders' CDS ended the period at similar levels to those seen in early 2023.
- 3.10. Heightened market volatility is expected to remain a feature, at least in the near term and, CDS levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the PCC's counterparty list recommended by Arlingclose remain under constant review.

4. LOCAL CONTEXT

- 4.1. At 31 March 2024 the Council's underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), was £160.2m, while usable reserves and working capital which are the underlying resources available for investment were £31.3m (principal invested plus gains on investments with a variable net asset value). These factors and the year-on-year change are summarised in Tables 1 and 2.

Table 1: Capital Financing Summary

	31/03/23 Balance £m	Movement £m	31/03/24 Balance £m
General Fund CFR	27.5	-1.1	26.4
Housing Revenue Account CFR	10.8	9.0	19.8
HRA Settlement	118.1	-4.1	114.0
Total CFR	156.4	3.8	160.2
Financed By:			
External Borrowing	118.5	5.5	124.0
Internal Borrowing	37.9	-1.7	36.2
Total Borrowing	156.4	3.8	160.2

- 4.2. The General Fund CFR (and so internal borrowing) has reduced as MRP payments for the year exceeded the new borrowing requirement for the capital programme. This was largely due to new direct property investment being suspended during 2023/24, following increases in interest rates. The Housing Revenue Account (HRA) CFR and external borrowing has increased due to expenditure on the Development Programme, offset by the repayment of the maturing HRA Public Works Loan Board (PWLB) debt. New external borrowing of £10m was undertaken for the HRA programme.
- 4.3. The Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position at 31 March 2024 and the change during the year is shown in Table 2.

Table 2: Treasury Management Summary

	31/03/23 Balance £m	Movement £m	31/03/24 Balance £m	31/03/24 Rate %
Long-term borrowing	(114.0)	(5.9)	(119.9)	3.50
Short-term borrowing	(4.3)	0.2	(4.1)	2.82
Total borrowing	(118.3)	(5.7)	(124.0)	3.48
Long-term investments	13.6	(4.5)	9.1	5.26
Short-term investments	3.0	7.0	10.0	5.17
Cash and cash equivalents	14.9	(2.7)	12.2	5.15
Total investments	31.5	(0.2)	31.3	5.19
Net borrowing	(86.8)	(5.9)	(92.7)	

Note: the figures in Table 2 are from the balance sheet in the Council's statement of accounts adjusted to exclude operational cash, market value adjustments and accrued interest.

- 4.4. The increase in net borrowing of £5.9m shown in Table 2 reflects the combination of a decrease in investment balances of £0.2m following the repayment of grant and new capital expenditure as well as the net increase in external borrowing of £5.7m, in line with the Council's policy on borrowing. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

5. BORROWING UPDATE

- 5.1. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.
- 5.2. The Council has not invested in assets primarily for financial return or that are primarily related to the functions of the Council. It has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.
- 5.3. Further, the Council has invested in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the Council's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the Council's aim of protecting reserves from high inflation.
- 5.4. The Council is a net borrower and as stated in the Treasury Management Strategy 2024/25, the Council expects a positive liability benchmark across the forecast period, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR. Although the Council currently has taken external borrowing, this is not predicted to be sufficient to meet the CFR between 2024 and 2034 and therefore, as a result, further borrowing will be considered by the Section 151 Officer over the coming months and years, if required.
- 5.5. The Section 151 Officer will review the current pooled fund investment prior to making any external borrowing decisions.

6. BORROWING ACTIVITY

- 6.1. As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
- 6.2. Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Gilt yields fell in late 2023, by December 2023 they had returned to the lows previously seen in April earlier that year before rebounding to an extent in the first three months of 2024. Gilt yields have remained volatile, seeing upward

pressure from perceived sticker inflation at times and downward pressure from falling inflation and a struggling economy at other times.

- 6.3. The cost of short-term borrowing from other local authorities has generally risen with Base Rate over the year. Interest rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates fell back to more normal market levels in April 2024.
- 6.4. At 31 March 2024 the Council held £124.0m of loans, an increase of £5.7m from the end of March 2023. The vast majority of the outstanding loans are in relation to the resettlement of the HRA in 2012/13 but now include the £10m new borrowing undertaken during the year for the Housing Development Programme. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing Position

	31/03/23 Balance £m	Movement £m	31/03/24 Balance £m	31/03/24 Rate %	31/03/24 WAM* years
Public Works Loan Board	(118.3)	(5.7)	(124.0)	3.48	17.2
Total borrowing	(118.3)	(5.7)	(124.0)	3.48	17.2

* Weighted average maturity

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

- 6.5. The Council has seen steadily decreasing investment balances over the course of the financial year, which had been used in part to fund internal borrowing. The decrease in balances has been, in large part due to increased expenditure on the capital programme. In order to meet cash flow requirements and maintain sufficient liquidity, the decision was made in March 2024 to borrow £10m from the PWLB, at an average interest cost of 4.69%, with the borrowing maturities evenly split between March 2073 and March 2074. This external borrowing replaces the internal borrowing the Council was previously able to fund with its higher cash balances. This is in keeping with the Council's borrowing strategy and the maturity profile of the existing portfolio of loans.
- 6.6. This also meant that £4.1m of existing PWLB loans with an average interest cost of 2.64%, which was repaid at maturity during the year, was effectively refinanced, albeit at a higher rate. Because this additional borrowing related to the HRA, these new loans were secured using the PWLB's HRA Rate which offers a discount of 60 basis points to loans at the Standard Rate.
- 6.7. This borrowing strategy has been monitored by Arlingclose and has enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

7. TREASURY INVESTMENT ACTIVITY

- 7.1. The CIPFA Treasury Management Code now defines treasury management investments as investments that arise from the authority's cash flows or treasury risk management activity that ultimately represents

balances that need to be invested until the cash is required for use in the course of business.

- 7.2. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year the Council's investment balances have ranged between £29.9m and £76.6m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4.

Table 4: Treasury investment position

Investments	31/03/2023 Balance £m	Movement £m	31/03/2024 Balance £m	31/03/24 Rate %	31/03/24 WAM* years
Short term Investments					
Banks and Building Societies:					
- Unsecured	5.0	(3.0)	2.0	4.48	0.01
- Secured	1.0	(1.0)	0.0	N/A	N/A
Money Market Funds	6.9	1.3	8.2	5.25	0.01
Government:					
- Local Authorities	0.0	6.0	6.0	5.59	0.27
- Supranational Banks	0.0	2.0	2.0	5.03	0.70
- UK Treasury Bills	3.0	(1.0)	2.0	5.42	0.01
Cash Plus Funds	2.0	0.0	2.0	4.09	0.01
	16.9	4.3	22.2	5.16	0.14
Long term investments					
Pooled Property Funds**	7.6	0.0	7.6	4.91	N/A
Pooled Equity Funds**	3.0	(1.5)	1.5	7.06	N/A
Pooled Multi-Asset Funds**	3.0	(3.0)	0.0	N/A	N/A
	13.6	(4.5)	9.1	5.26	N/A
TOTAL INVESTMENTS	31.5	0.2	31.3	5.19	0.10

* Weighted average maturity, excluding pooled funds

** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2024 based on the market value of investments at the start of the year.

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

- 7.3. The CIPFA Treasury Code and government guidance both require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.
- 7.4. Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end of March 2024. Short term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the

end of the period. Money Market Rates also rose and were between 4.5% and 5.3% by the end of March 2024.

- 7.5. £9.1m that is currently available for longer-term investments is invested in pooled property and equity funds. During the financial year the Council has decreased amounts invested in these instruments due to the forecast reducing treasury investment balance.
- 7.6. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The Council should invest in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.
- 7.7. The Council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 March 2024 and at the same date in 2023 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)

	Credit rating	Bail-in exposure	Weighted average maturity (days)	Rate of return
31.03.2023	AA-	75%	2	3.86%
31.03.2024	AA-	51%	55	5.26%
Similar LAs	A+	61%	50	5.20%
All LAs	A+	61%	9	5.17%

- 7.7.1. Table 5 shows the Council's average credit rating of the portfolio has remained consistent at AA- whilst bail-in exposure has reduced over the 12 month period. This reduction can be attributed to the higher proportion of balances either secured by collateral, as is the case with supranational bonds, or not subject to bail-in at all where the Council has lent to the UK government or other local authorities. The increase in the portfolio's maturity is due to a greater proportion of short dated but less liquid instruments being invested in, with less reliance on highly liquid Money Market Funds and overnight deposits. The Council's investment portfolio compares favourably to other Arlingclose clients, with a higher credit rating and average rate of return with lower risk in the form of bail-in exposure.

Externally managed pooled funds

- 7.8. £9.1m of the Council's investments is invested in externally managed strategic pooled equity and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. In 2023/24 these funds

generated an average total return of 1.45%, comprising a 4.73% income return which is used to support services in year, and 2.28% of unrealised capital loss. Over the holding period, the Council's investments in pooled funds have contributed 4.00% income per year on average, which compares favourably in a period where base rates have generally been low.

- 7.9. During 2023/24 after an initial period of caution due to the likelihood of recession, the UK economy fared better than anticipated with a shallow recession, falling inflation and improved consumer confidence providing support for UK equities, with stocks trading at attractive valuations relative to their global peers. The FTSE All-Share was one of the top performing stock markets in September and December 2023. The total return on the FTSE All Share index for the 12 months ending March 2024 was 8.2%.
- 7.10. The market background for commercial property improved marginally in 2023 and was more stable, in contrast to the very challenging backdrop of 2022. Low transactional volumes were a constraint on valuations and made prospective sellers and buyers more cautious. Although many sectors lacked momentum, there was growing confidence in the longer-term outlook as occupier demand and rental markets held up. Industrial and retail warehousing sectors remained strong, but the retail and offices sectors remained weak, the latter continuing to be hindered by low occupancy from hybrid working practices.
- 7.11. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium-to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years and with the expectation that over a three- to five-year period total returns should exceed cash interest rates.
- 7.12. The Council is aware of the risks involved with investing in pooled funds that hold underlying investments in equities and property. As a result, when the Council began to specifically target higher returns from a proportion of its investments it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve has been increased by £262,000 from 23/24 budget savings and is now £300,000, which equates to 3.3% of the actual allocation to pooled investments of £9.1m.
- 7.13. In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 31 March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

8. FINANCIAL IMPLICATIONS

- 8.1. The outturn for investment income received in 2023/24 was £2.606m on an average investment portfolio of £52.72m, therefore giving a yield of 4.94%. By comparison, investment income received in 2022/23 was £1.53m on an average portfolio of £69.34m with a yield of 2.21%.
- 8.2. The outturn for debt interest paid (HRA) in 2023/24 was £4.731m which was a small saving on the budget set at £4.771m.
- 8.3. The budget for interest payable (HRA) has been increased within the base budget for 2024/25, in reflection of anticipated loan financed expenditure on the capital programme, offset by the continuing principal repayments of the HRA settlement.

9. NON-TREASURY INVESTMENTS

- 9.1. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).
- 9.2. Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.
- 9.3. This could include loans made to local businesses or the direct purchase of land or property and such loans and investments will be subject to the council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.
- 9.4. The Council's existing non-treasury investments are listed in Table 6.

	31/03/24 Asset value £m	31/03/24 Annual rate of return
Hythe Marina	2.798	5.90
Saxon Inn Calmore	0.179	7.04
Meeting House Lane	0.188	-
New Milton Health Centre	2.489	5.51
Ampress Car Park	2.141	4.52
The Parade Salisbury Road Totton	1.511	6.34
1-3 Queensway New Milton	1.620	-
Unit 1 Nova Business Park	0.548	6.38
Drive -Thru Salisbury Road, Totton	1.372	4.83
Units 1-3 27 Salisbury Road, Totton	1.900	8.02
85 Station Road, New Milton	5.000	5.00
1b Junction Road, Totton	0.128	-
Unit 800 Ampress Park, Lymington	1.903	4.97

Platinum Jubilee Business Park	8.550	1.48
Total investment properties	30.325	4.34
Lymington Town Hall	3.321	2.91
Hardley Industrial Estate	5.088	4.42
Total income earning properties	8.409	3.83
Grand total	38.734	4.01

9.5. The Investment Property note within the Annual Financial Report gives further information on the net gains / losses and fair value movements.

10. CONSULTATIONS

10.1. Following three rounds of consultation, the Department for Levelling Up, Housing and Communities (DLUHC) has published its final consultation response, amendment regulations and revised statutory guidance on Minimum Revenue Provision (MRP). The statutory guidance also incorporates an informal commentary. There are three main changes:

- Local authorities (including police and crime commissioners) cannot exclude any amount of their Capital Financing Requirement (CFR) from their MRP calculation, unless by an exception set out in law.
- Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP, with specific exceptions for capital loans and leased assets.
- For capital loans given on or after 7 May 2024, sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding minus any expected credit loss.

10.2. Changes will take effect from the 2025/26 financial year, except in respect of expected credit losses which take effect from the current 2024/25 year.

11. COMPLIANCE REPORT

11.1. The Council confirms compliance of all treasury management activities undertaken during 2023/24 with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

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

Table 7: Debt limits

	2023/24 Maximum £m	31/03/24 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied
Total debt	124.0	124.0	211.5	230.5	✓

11.3. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on

occasions due to variations in cash flow, and this is not counted as a compliance failure.

12. TREASURY MANAGEMENT INDICATORS

12.1. As required by the 2021 CIPFA Treasury Management Code, the Council measures and manages the following treasury management prudential indicators.

Liability benchmark

12.2. This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

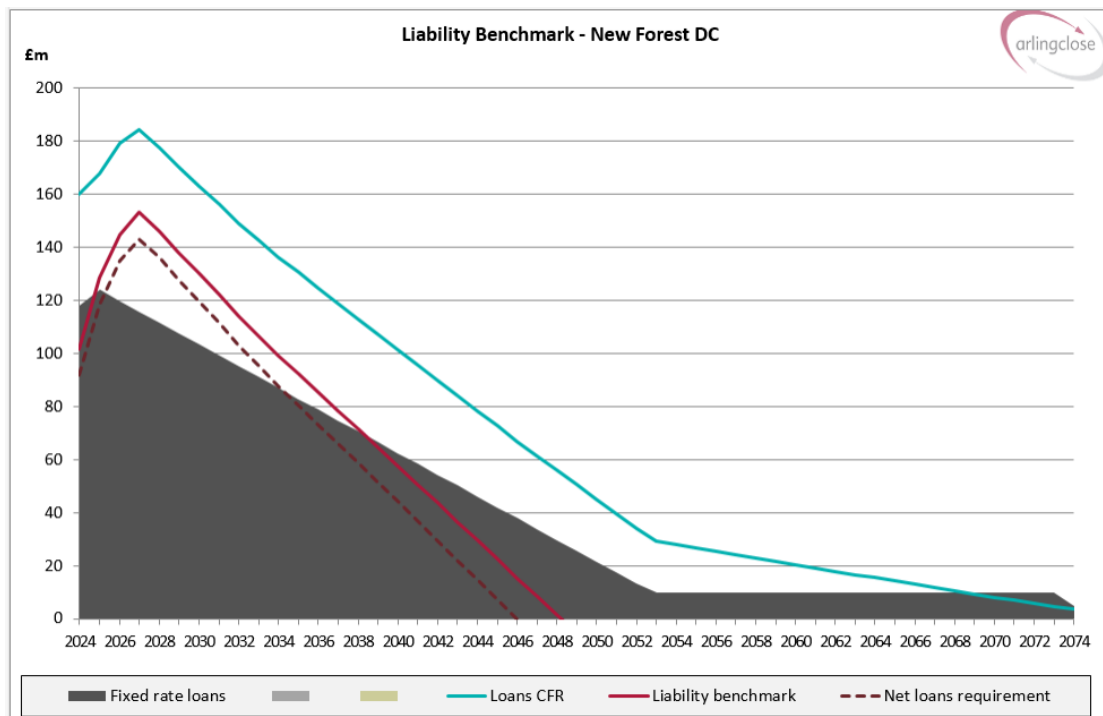
Table 8: Liability benchmark

	31/03/23 Actual £m	31/03/24 Actual £m	31/03/25 Forecast £m	31/03/26 Forecast £m
Loans CFR	156.4	160.2	170.3	180.5
Less: Balance sheet resources	(70.5)	(62.1)	(45.4)	(43.2)
Net loans requirement	85.9	98.1	124.9	137.3
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	95.9	108.1	134.9	147.3
Existing borrowing	118.3	124.0	119.9	115.8

12.3. The Liability Benchmark at 31/3/24 is £13.2m less than predicted in the Treasury Strategy report in January 2024. This is the result of a combination of a £3.9m lower Capital Financing Requirement, due to reduced capital expenditure financing from loan and higher reserves/working capital of £9.3m due to budget savings and expenditure rephasing.

12.4. Liability benchmark figures for forecast years 2025/26 and 2026/27 have remained unaltered from the January report but will be reviewed for a future report now that 23/24 closedown has been finished and its impact into future years can be assessed in detail.

Chart 1: Liability Benchmark



Interest rate exposures

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

Table 9 – Interest Rate Risk Indicator

	31/03/24 Actual	Impact of +/- 1% interest rate change
Sums subject to variable interest rates		
Investment	£17.6m	+/- £0.2m
Borrowing	(£0.0m)	+/- £0.0m

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

Maturity structure of borrowing

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

Table 10: Maturity structure of borrowing

	31/03/24 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	10%	25%	0%	✓
5 years and within 10 years	17%	25%	0%	✓
10 years and above	67%	100%	0%	✓

Long-term Treasury Management Investments

12.8. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

Table 11: Price risk indicator

	2023/24	2024/25	2025/26	No fixed date
Actual principal invested beyond a year	£9.1m	£9.1m	£9.1m	£9.1m
Limit on principal invested beyond a year	£25m	£20m	£15m	£10m
Complied	✓	✓	✓	✓

12.9. Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

13. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

13.1. None arising directly from this report.

14. RECOMMENDATIONS

Members are recommended to:

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

Further information	Background papers
Please contact: Daniel O'Rourke Corporate Accountant Investments & Borrowing Hampshire County Council Daniel.O'Rourke@hants.gov.uk	The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance Local Government Act 2003 SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 Treasury Management Strategy Report 2023/24

<p>Alan Bethune Strategic Director of Corporate Resource, and Transformation Section 151 Officer New Forest District Council alan.bethune@nfdc.gov.uk</p>	<p>Audit Committee – 27 January 2023 Council – 27 February 2023</p> <p>Treasury Management Mid-Year Monitoring Report 2023/24 Audit Committee – 27 October 2023</p> <p>Treasury Management Strategy Report 2024/25 Audit Committee – 26 January 2024 Council – 26 February 2024</p>
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New Forest District Council Audit planning report

Year ended 31 March 2024

May 2024

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Building a better
working world

Agenda Item 6



Members of the Audit Committee
New Forest District Council
Appletree Court
Beaulieu Road
Lyndhurst
S43 7PA

17th May 2024

Dear Audit Committee Members

Audit planning report

Attached is our audit planning report for the forthcoming meeting of the Audit Committee. The purpose of this report is provide the Audit Committee of New Forest District Council with a basis to review our proposed audit approach and scope for the 2023/24 audit, 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, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for the Council. We have aligned our audit approach and scope with these. Our External Audit Update report presented to the 22nd March 2024 Audit Committee set out the current Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing and their likely impact. The joint statement on the update to proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit 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 it will impact the level of resource needed to discharge our responsibilities. We will consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the Audit Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

We draw Audit Committee members and officers attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix A).

(continued)

This report is intended solely for the information and use of the Audit Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you on 31st May 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Simon Mathers

Partner

For and on behalf of Ernst & Young LLP

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06 Audit team	07 Audit timeline	08 Independence	09 Appendices	

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/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.



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BOARDROOM



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Overview of our 2023/24 audit strategy

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 Update Report	Details
Misstatement 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 the 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.
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.
Valuation of PPE land and buildings – valued at Existing Use Value (EUV)	Inherent risk	No change in risk or focus	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. 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.

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 Update Report	Details
Valuation of Council Dwellings	Inherent risk	No change in risk or focus	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.
Pension Liability / Asset Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 requires the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The outcome of consultation on the planned measures to address local audit delays and related proposed temporary changes to CIPFA’s Code of Practice on Local Authority Accounting are likely to impact our assessment of audit risks and our response to them. We will continue to keep the Audit Committee updated on our assessment of any changes to audit risk as this becomes clearer.

Overview of our 2023/24 audit strategy

Materiality

Planning materiality

£2.47m

Materiality has been set at £2.47m, which represents 2% of 2022/23 gross expenditure on provision of services.

Performance materiality

£1.853m


Performance materiality has been set at £1.853m, which represents 75% of materiality.

Audit differences

£0.124m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £xxm. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

The outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the Council's 2022/23 financial statements and any guidance subsequently issued may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.



Overview of our 2023/24 audit strategy

Audit scope

This Audit planning report covers the work that we plan to perform 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 include further details on VFM in Section 3.

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, and as articulated in this Audit planning report, 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, we set those within this Audit planning report and we will continue to discuss these with management as to the impact on the scale fee.

Overview of our 2023/24 audit strategy

Audit scope (Cont.)

Effects of climate-related matters on financial statements


Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to the Council. It is, nevertheless, important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Audit scope and approach

We intend to take a substantive audit approach.

The Government proposals to re-establish the local authority framework on a more sustainable basis and the outcome of the related consultations are likely to have an impact on the scope of the audit. In particular, 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. We draw your attention to the audit scope section 5 of this audit plan where we set out our current understanding of some of the likely impact of the proposals on our scope and approach for your 2023/24 audit. We will continue to provide updates on the impact of these changes to the Audit Committee where necessary to do so.



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.

Timeline

A timetable has been agreed with management to complete the audit by 30th November 2024. In Section 07 we include a provisional timeline for the audit. All parties need to work together to ensure this timeline is adhered to.

Overview of our 2023/24 audit strategy

Group Audit scope

Our audit procedures will be performed on both the Council and Group financial statements, which includes the financial performance and position of the wholly owned group subsidiary, Appletree Holdings Limited. Appletree Holdings Limited has two subsidiaries which are also incorporated in the group financial statements: Appletree Property Lettings Limited and Appletree Residential Developments Limited (which is a dormant company up to and including 2022/23).

We have specifically considered the scope of our audit to include the group financial statements.

Our audit strategy for performing an audit of group is risk based. We identify components as:

- ▶ Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
- ▶ Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

The components at New Forest District Council are not individually significant based on size or risk and therefore, we perform specific scope procedures on Appletree Property Holdings Limited and Appletree Property Lettings Limited on the material balances within the subsidiary financial statements. Materiality has been considered in section 4 below. The material balances as at 31st March 2023 are:

- ▶ Property, Plant and Equipment;
- ▶ Creditors; and
- ▶ Debtors

We do not plan to rely on controls in performing this testing and therefore, these balances will be tested through a substantive audit approach.

As well as the above testing on specific account balances, we will also:

- ▶ Test consolidation journals and intercompany eliminations
- ▶ Enquire of management about unusual transactions in these components

We will revisit this assessment at year-end which will include reviewing the financial statements of Appletree Residential Developments Limited to confirm whether the company is still dormant.



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02 Audit risks

Our response to significant risks

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

Misstatements due to fraud or error*

What is the risk?

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

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

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

What will we do?

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud
- ▶ Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions)
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud
- ▶ Determining an appropriate strategy to address those identified risks of fraud
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- ▶ Undertake procedures to identify significant unusual transactions
- ▶ Consider whether management bias was present in the key accounting estimates and judgments in the financial statements

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

Our response to significant risks

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

Inappropriate capitalisation of revenue expenditure*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

- ▶ Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
- ▶ Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so.
- ▶ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE) / Investment Property (IP) additions and/or REFCUS in the financial statements.

What is the risk?

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 the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

What will we do?

- ▶ Test Property, Plant and Equipment (PPE) / Investment Property (IP) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- ▶ Assess whether the capitalised spend clearly enhances or extends the useful life of assets rather than simply repairing or maintaining the asset on which it is incurred.
- ▶ Consider whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- ▶ Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we expect there to be material REFCUS in the year.
- ▶ Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

Our response to significant risks

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

Valuation of investment property land and buildings – valued at Fair Value (FV)

Financial statement impact

The valuation of investment properties represent a material figure within the Council's financial statements being £30.685m at 31st March 2023.

As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a risk that investment property assets may be under/overstated or the associated accounting entries incorrectly posted.

What is the risk?

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.

What will we do?

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their competence, capability and objectivity;
- ▶ Ensure investment property assets have been revalued as per the valuer instructions and in compliance with the Code;
- ▶ Consider if there are any specific changes to assets that should have been communicated to the valuers;
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the appropriateness of key assumptions used to inform the valuation and of the basis on which the valuation has been undertaken. If necessary, we will involve our own EY valuation specialists; and
- ▶ Review journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements.

Other areas of audit focus

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

What is the risk/area of focus, and the key judgements and estimates?

Valuation of property, plant and equipment (PPE) land and buildings – valued at Depreciated Replacement Cost (DRC) (Inherent risk)

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.

Our response: Key areas of challenge and professional judgement

We will:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their competence, capability and objectivity;
- ▶ Ensure PPE assets valued on a DRC basis have been revalued as per the valuer instructions and in compliance with the Code;
- ▶ Consider if there are any specific changes to assets that should have been communicated to the valuers;
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support area inputs used);
- ▶ Consider the appropriateness of key assumptions used to inform the valuation and of the basis on which the valuation has been undertaken; and
- ▶ Review journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements.

What else will we do?

Our testing will follow a fully substantive approach and consider the judgements and assumptions employed by the Council's valuer.

We will understand the valuation methodology employed by the Council's valuer and consider whether we are required to employ an EY specialist valuer to support our audit procedures.

Other areas of audit focus

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

What is the risk/area of focus, and the key judgements and estimates?

Valuation of PPE land and buildings – valued at Existing Use Value (EUV) (Inherent risk)

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.

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.

Our response: Key areas of challenge and professional judgement

We will:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their competence, capability and objectivity;
- ▶ Ensure PPE assets valued on a EUV basis have been revalued as per the valuer instructions and in compliance with the Code;
- ▶ Consider if there are any specific changes to assets that should have been communicated to the valuers;
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the appropriateness of key assumptions used to inform the valuation and of the basis on which the valuation has been undertaken; and
- ▶ Review journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements.

What else will we do?

Our testing will follow a fully substantive approach and consider the judgements and assumptions employed by the Council's valuer.

We will understand the valuation methodology employed by the Council's valuer and consider whether we are required to employ an EY specialist valuer to support our audit procedures.

Other areas of audit focus

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

What is the risk/area of focus, and the key judgements and estimates?

Valuation of Council Dwellings (Inherent risk)

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.

Our response: Key areas of challenge and professional judgement

We will:

- ▶ Evaluate the application of the Beacon Methodology;
- ▶ Test a sample of Council Dwellings valuations against equivalent property market sales;
- ▶ Test accounting entries have been correctly processed in the financial statements.

What else will we do?

Our testing will follow a fully substantive approach and consider the judgements and assumptions employed by the Council's valuer.

We will understand the valuation methodology employed by the Council's valuer and consider whether we are required to commission an EY specialist valuer to support our audit procedures.

Other areas of audit focus

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

What is the risk/area of focus, and the key judgements and estimates?

Pension Liability / Asset Valuation (inherent risk)

The Local Authority Accounting Code of Practice and IAS19 require the Council / Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2023 this totalled £21.162 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our response: Key areas of challenge and professional judgement

We will:

- Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council;
- Assess the work of the pension fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What else will we do?

We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.



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03 Value for Money risks

Value for Money

Council's responsibilities for value for money

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

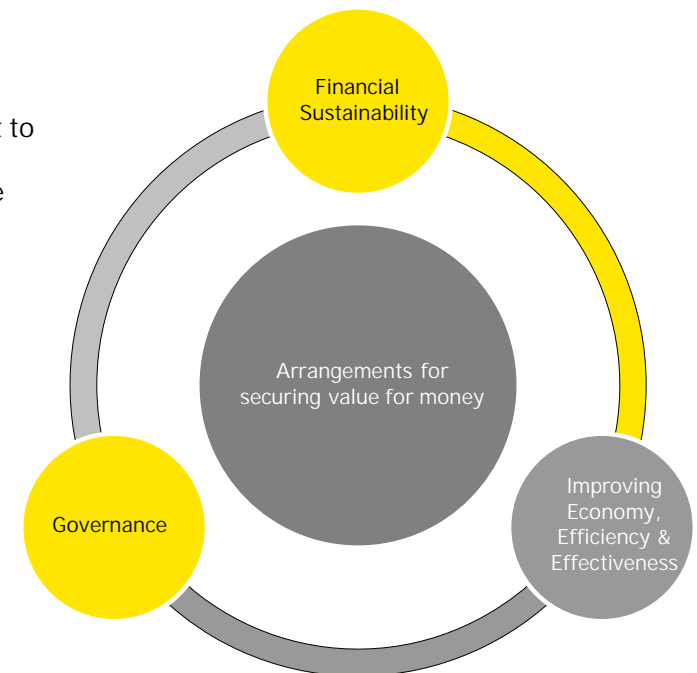
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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

Auditor Responsibilities

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

The specified reporting criteria are:

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



Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

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

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

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

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

We should also be informed by a consideration of:

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



Value for Money

Responding to identified risks of significant weakness

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

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the a commentary on your value for money arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This may include matters that we do not consider to be significant weaknesses in your arrangements but should be brought to your attention. This will include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2023/24 VFM planning

We have completed our initial VFM (value for money) risk planning work, where we have considered:

- ▶ Our entity level controls and understanding the business assessment;
- ▶ The Council's Risk Register;
- ▶ The 2022/23 Annual Governance Statement;
- ▶ Council meeting minutes;
- ▶ Our planning meetings with management;
- ▶ Key financial and budget information;
- ▶ Key performance reports;
- ▶ Internal audit reports; and
- ▶ Information from local, national and specialist media and findings of other inspectorates, review agencies and other relevant bodies including the CQC.

We have not identified any risks of significant weakness in the Council's arrangements to suggest that the Council did not have proper arrangements to secure economy, efficiency and effectiveness on its use of resources at that time.



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04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2023/24 has been set at £2.470m. This represents 2% of the Council's 2022/23 gross expenditure on provision of services. It will be reassessed throughout the audit process. In our view, gross operating expenditure is the most appropriate basis for determining planning materiality for the Council and we consider misstatements greater than 2% of gross operating expenditure to be material. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. We have provided supplemental information about audit materiality in Appendix F.

Gross expenditure on provision of services

£123.494m

Planning materiality
£2.470m

Performance materiality
£1.853m

Audit differences
£0.124m

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The outcome of consultation on the planned measures to address local audit delays may impact our assessment of materiality for the 2023/24 audit. We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.853m which represents 75% of planning materiality. The performance materiality has remained consistent at 75% in the current year due to the small number of misstatements identified in the 2021/22 audit.

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

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

Group materiality – we have not identified a separate materiality for the Group and the Council as the audit opinion provided covers the Group and Council financial statements. There is also an insignificant difference in the materiality calculated for the Group compared to the Council.



05 Scope of our audit

Audit process and strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- ▶ whether the financial statements give a true and fair view of the financial position of the Group and its expenditure and income for the period in question; and
- ▶ whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- ▶ whether other information published together with the audited financial statements is consistent with the financial statements; and
- ▶ where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- ▶ Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the National Audit Office.

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

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

Audit process and strategy

Objective and Scope of our Audit scoping (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.

Audit process and strategy

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.
- ▶ Reliance on the work of experts in relation to areas, such as pensions and property valuations and the calculation of the NNDR appeals provision.

Our initial assessment of the key processes across the Council has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

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

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

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

Internal audit

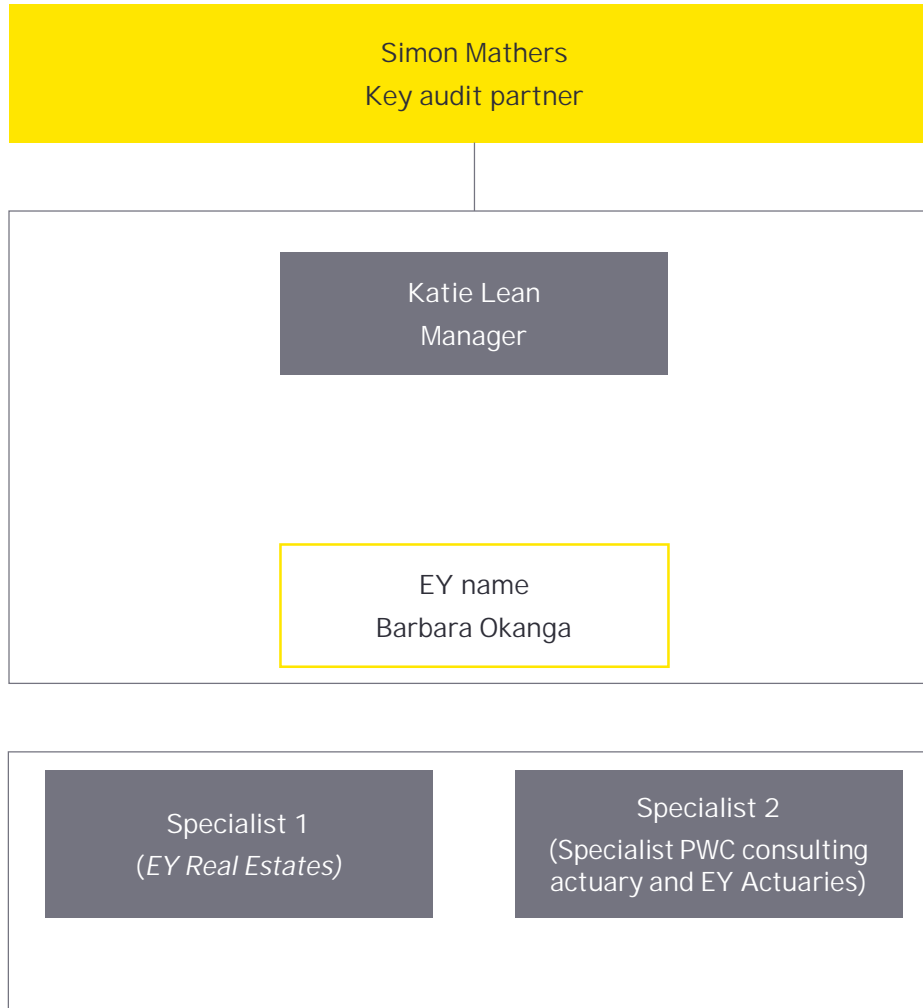
We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



06 Audit team

Audit team

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Use of specialists

- ▶ Our approach to the involvement of specialists, and the use of their work

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

Area	Specialists
Valuation of Land and Buildings	Management specialist – Management’s valuation experts EY specialist - EY Real Estates team may be used
Pensions disclosure	Management specialist – Hymans Roberston EY specialist - EY Actuaries

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

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

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



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Audit timeline

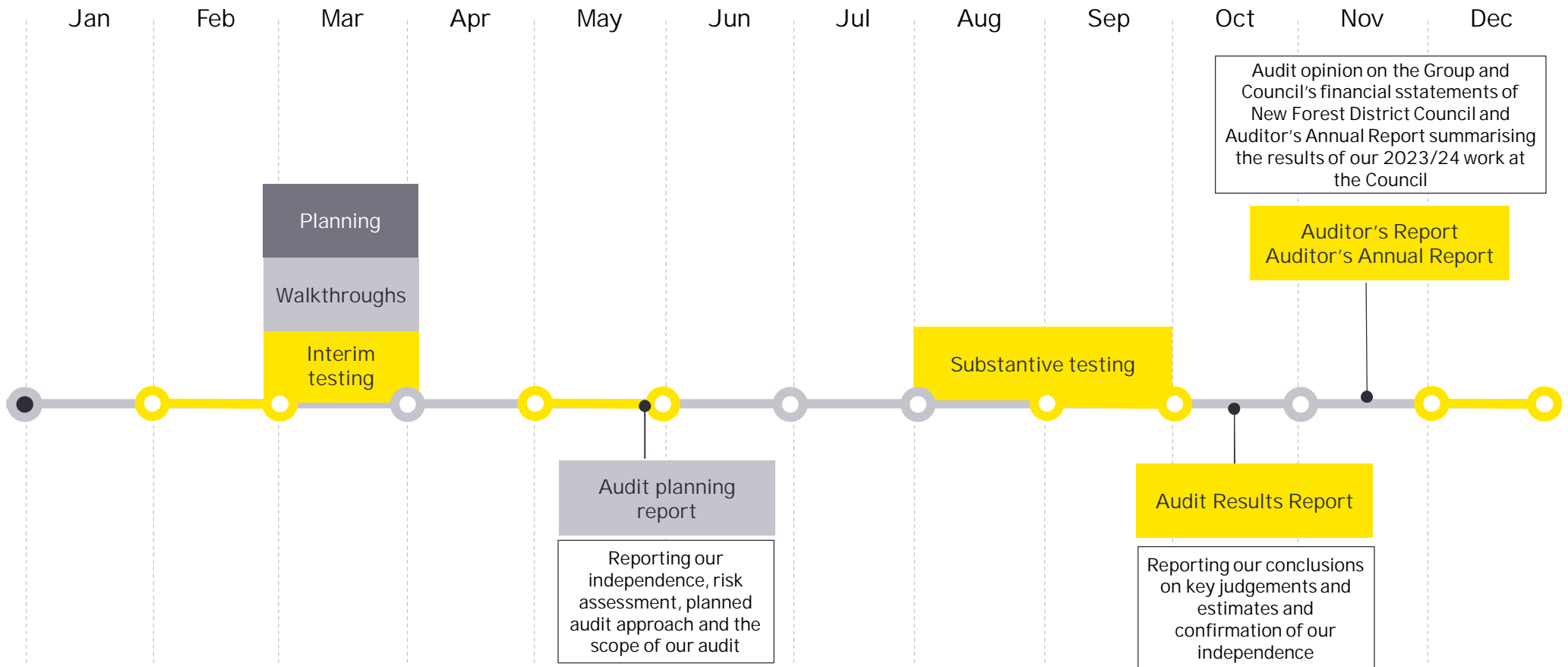
Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 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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08 Independence

Introduction

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

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence
- ▶ The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).
- ▶ All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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

No non-audit services have been provided and therefore, there are no services which are prohibited under the FRC's ES or require approval in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, there are no non-audit services.

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

Self review threats

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

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

Management threats

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

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

Other threats

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

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



Other communications

EY Transparency Report 2023

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2023 and can be found here: [EY UK 2023 Transparency Report](#).



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09 Appendices

Appendix A – PSAA Statement of Responsibilities

As set out on the next page our fee 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.

Appendix B – 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.

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; and
- ▶ The Council has an effective control environment
- ▶ 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 on the previous page.

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	63,956
Scale fee adjustment	TBC – Note 3	TBC – Note 2	27,145 Note 1
Total audit fees	165,261	57,121	91,102

All fees exclude VAT

(1) As reported in our 2021/22 Audit Results Report, and our Audit Update Report presented to Audit Committee on 22nd March 2024, we expected to submit a proposal to PSAA for rebasing of the 2021/22 scale fee and for scale fee variation. This has since been shared with the Council and submitted to PSAA for determination.

The rebasing includes changes in work required to address professional and regulatory requirements and scope associated with risk. This includes additional work required in relation to IAS 19 pension accounting and PPE valuations testing as well as increased FRC challenge and technical accounting issues, particularly in relation to the identified significant and fraud risks.

The scale fee adjustment includes:

- ▶ The need to engage EY Real Estate to review a number of PPE/IP assets as well as the additional work required on PPE in 2021/22 due to the errors identified for £7,265.
- ▶ The need to engage EY Pensions to review assumptions used in the Pensions IAS19 liability as well as additional work required in respect of the March 2022 Triennial Valuation for £1,922.
- ▶ Work to review the portfolio heading changes resulting in a prior year restatement valued at £1,048.
- ▶ 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 undertaken in year in respect of the recharging journals posted by the Council and other auditing challenges for £4,703.
- ▶ Work undertaken in relation to the audit requirements of the group financial statements valued at £3,620.
- ▶ The introduction of the 2020 Code of Audit Practice updated requirements for our Value for Money assessment and the introduction of ISA540 (revised) audit of accounting estimates – introduced updated requirements. These are valued at £8,587.

Appendix B – Fees



(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.

Appendix C – Accounting and regulatory update

Future accounting developments

The following table provides a high level summary of the accounting development that has the most significant impact on the Council:

Name	Summary of key measures	Impact on 2023/24
IFRS 16 Leases	<ul style="list-style-type: none">• CIPFA have confirmed there will be no further delay of the introduction of the leases standard IFRS 16.• Assets being used by the authority under operating leases are likely to be capitalised along with an associated lease liability.• Lease liabilities and right of use assets will be subject to more frequent remeasurement.• The standard must be adopted by 1 April 2024 at the latest.	<ul style="list-style-type: none">• The 2023/24 Statement of Accounts must disclose the impact the initial application of IFRS 16 is expected to have on the authority's financial statements.• The authority should have made key IFRS 16 policy decisions in accordance with the Code before 1 April 2024.• Officers must implement robust systems to ensure all relevant data points, which could prompt a remeasurement or modification of the accounting entries, are captured in a timely manner.

Appendix C – Accounting and regulatory update (optional)

Regulatory update

The following table provides a high level summary of the regularity update that has the most significant impact on the Council:

Name	Summary of key measures	Impact on 2023/24
ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement	<p>ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:</p> <ul style="list-style-type: none"> • Risk Assessment • Understanding the entity's internal control • Significant risk • Approach to addressing significant risk (in combination with ISA 330) <p>The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:</p> <ul style="list-style-type: none"> • Drive consistent and effective identification and assessment of risks of material misstatement • Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability') • Modernise ISA 315 to meet evolving business needs, including: <ul style="list-style-type: none"> • how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and • how auditors understand the entity's use of information technology relevant to financial reporting. • Focus auditors on exercising professional scepticism throughout the risk identification and assessment process. 	<p>We will need to obtain an understanding of the IT processes related to the IT applications of the Council.</p> <p>We will perform procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy.</p> <p>When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls where we do not gain assurance substantively, we performed additional procedures.</p> <p>We also review the following processes for all relevant IT applications:</p> <ul style="list-style-type: none"> • Manage vendor supplied changes • Manage security settings • Manage user access • Manage entity-programmed changes • Job scheduling and managing IT process

Appendix D – The Spring Report

A combined perspective on enhancing audit quality

The Spring Report ('The Report') was released by the Audit Committee Chairs' Independent Forum (ACCIF) on 2 June 2023 and is the first of its kind. The Report is the outcome from a series of discussions held with a group of experienced audit committee chairs, auditors from the top 6 firms, and executives from the Financial Reporting Council. The Report details the 9 key learnings that the group agreed on, proposing evolution not revolution, and is focused on getting the basics right first time leading to enhanced audit quality. The report considers key learnings covering the planning, execution, completion and reporting phases of the audit. The full list of key learnings can be found in the [report](https://accif.co.uk) (accif.co.uk).

Appendix E – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	<p>External audit update report – 22nd March 2024</p> <p>Audit planning report – 31st May 2024</p>
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	Audit results report

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Appendix E – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Audit Committee responsibility 	Audit results report

Appendix E – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> ▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report – 31st May 2024 Audit results report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit results report

Appendix E – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	External audit update report – 22nd March 2024 Audit planning report – 31st May 2024 Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report

Appendix F – Additional audit information

Regulatory update

Our objective is to form an opinion on the Group's consolidated financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the UK, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Appendix F – Additional audit information (cont'd)

Other required procedures during the course of the audit

Procedures required by the Audit Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.
- ▶ Examining and reporting on the consistency of consolidation schedules or returns with the Group's audited financial statements for the relevant reporting period

We have included in Appendix E a list of matters that we are required to communicate to you under professional standards.

Purpose and evaluation of materiality

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

Materiality determines:

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

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

Appendix G - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and
Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

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Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

Appendix G - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



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Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

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AUDIT COMMITTEE - 31 MAY 2024

INTERNAL AUDIT REPORT AND OPINION 2023-24

1. RECOMMENDATION

- 1.1 That the Audit Committee note the Internal Audit Report and Opinion for 2023-24.

2. INTRODUCTION

- 2.1 The purpose of this report is to provide the Audit Committee with the Chief Internal Auditor's opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2024.

3. BACKGROUND

- 3.1 In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of Council's framework of risk management, internal control and governance to inform the production of the Annual Governance Statement.
- 3.2 The Annual Report for 2023-24 (attached as Appendix A) provides the Chief Internal Auditor's opinion and summarises the audit work from which that opinion is derived.

4. FINANCIAL IMPLICATIONS

- 4.1 The audit plan consisted 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 reflected 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 Charter 2023-24

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Southern Internal Audit Partnership

Assurance through excellence
and innovation

NEW FOREST DISTRICT COUNCIL

Internal Audit Report & Opinion 2023-24

Prepared by: **Antony Harvey, Deputy Head of Partnership**

May 2024

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1. Role of Internal Audit

The Council is required by the Accounts and Audit (England) Regulations 2015, to

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

In fulfilling this requirement, the Council should have regard to the Public Sector Internal Audit Standards (PSIAS), as the internal audit standards set for local government. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations issued by CIPFA sets out best practice and should be used to assess arrangements to drive up audit quality and governance arrangements.

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

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

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

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



2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary. A full range of internal audit services is provided in forming the annual opinion.

As the Chief Internal Auditor, I review the approach to each audit, considering the following key points:

- Level of assurance required.
- Significance of the objectives under review to the organisation's success.
- Risks inherent in the achievement of objectives.
- Level of confidence required that controls are well designed and operating as intended.

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



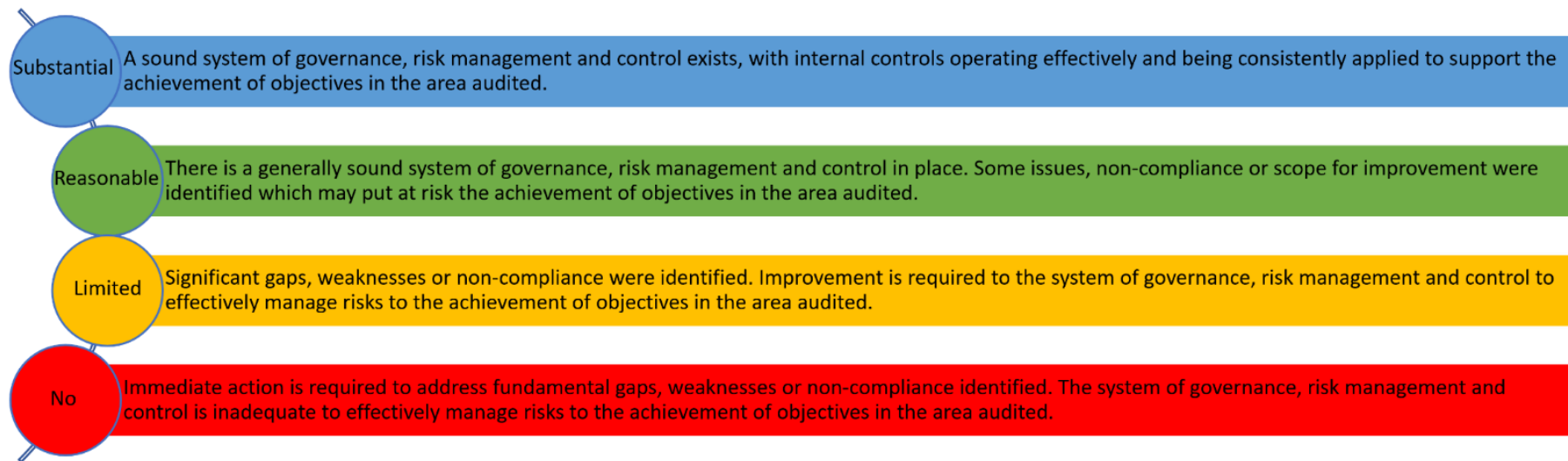
The Southern Internal Audit Partnership (SIAP) maintain an agile approach to audit, seeking to maximise efficiencies and effectiveness in balancing the time and resource commitments of our clients, with the necessity to provide comprehensive, compliant and value adding assurance.

Working practices have been reviewed, modified and agreed with all partners seeking to optimise the use of virtual technologies to communicate with key contacts and in completion of our fieldwork. However, the need for site visits to complete elements of testing continues to be assessed and agreed on a case-by-case basis.

3. Internal Audit Coverage

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council activities and to support the preparation of the Annual Governance Statement. Work has been planned and performed to obtain sufficient evidence to provide reasonable assurance that the internal control system is operating effectively.

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:



The 2023-24 internal audit plan was considered by the Audit Committee in March 2023. It was informed by internal audit's own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation. When presenting the audit plan to the Audit Committee, it was acknowledged that *'the audit plan amounted to in excess of 500 days of work per annum, against an annual provisional allocation of 400 days. This would be accommodated through a number of means, including combining reviews wherever possible'*.

The initial schedule of audit reviews was weighted towards the second half of 2023-24. During the year, engagement to scope and commence audits when our resources were available proved to be a challenge in some areas, resulting in multiple requests to defer the timing of audits. This placed increasing pressure on delivery during the second half of the year, which coincided with SIAP experiencing pressure on our existing capacity. Unfortunately, this has prevented us from delivering all audit reviews through to at least 'draft report' stage at the time of writing this report.

Despite a number of reviews remaining in progress, I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the internal control environment.

We will continue to progress the audits that have yet to reach report stage which will contribute towards the 2024/25 annual audit report and opinion. As a result, some reprioritisation of the 2024/25 audit plan may be required.

4. Internal Audit Opinion

As Chief Internal Auditor, I am responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform their annual governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

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

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

We enjoy an open, honest and mature working relationship with the Council which promotes the effective use of internal audit. Our planning discussions and risk-based approach to internal audit ensure that the internal audit plan includes areas of significance raised by management to ensure that ongoing organisational improvements can be achieved.

Annual Internal Audit Opinion 2023-24

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

In my opinion frameworks of governance, risk management and management control are **reasonable** and audit testing has demonstrated controls to be working in practice.

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

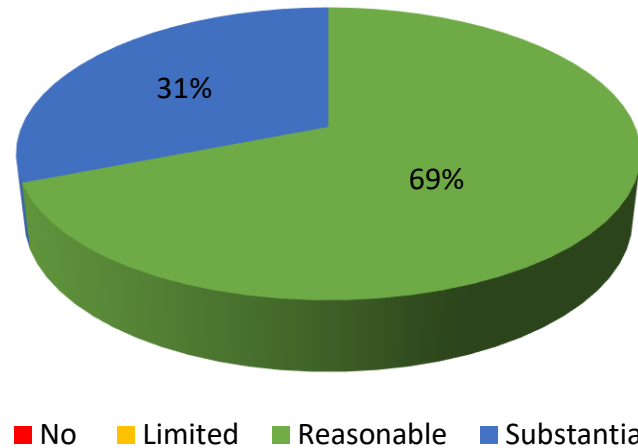
5. Governance, Risk Management & Control – Overview & Key Observations

Assurance opinions for 2023-24 reviews

The findings from our reviews have been reported to the Audit Committee throughout the year and a summary of the assurance opinions is outlined below, with further information provided in Annex 1. Whilst not resulting in an assurance opinion, the outcomes of other audit activity is considered when forming my overall assessment of the Council’s frameworks of Governance, Risk Management and Control, such as follow-up audits, mandatory grant certifications and those areas where outcomes culminated in a Position Statement, which are also listed in Annex 1.

We are pleased to report that no audits concluded with a ‘Limited’ or ‘No’ assurance opinion and there are no significant issues to report, following our assessments.

Assurance Opinions



Governance

Governance arrangements are considered during the planning and scoping of each review and in most cases, the scope of our work includes an overview of:

- the governance structure in place, including respective roles, responsibilities and reporting arrangements
- relevant policies and procedures to ensure that they are in line with requirements, regularly reviewed, approved and appropriately publicised and accessible to officers and staff.

Based on the work completed during the year, in our opinion the governance frameworks in place across the Council are generally robust and fit for purpose although common opportunities for improvement include documenting or updating policies and procedures to increase resilience and help ensure consistent practice and developing or enhancing performance measures and associated reporting arrangements.

Risk management

We reviewed risk management arrangements in the Council during 2021-22 which resulted in a limited assurance opinion. Following this review, a new risk management policy was approved by Full Council in October 2022. There has been regular reporting of the strategic risk register to EMT the Audit Committee during 2023-24. The current audit of risk management remains in progress and will be reported to the Audit Committee once concluded.

Control

In general, internal audit work found there to be a sound control environment in place across the majority of review areas concluded from the 2023-24 audit plan that were working effectively to support the delivery of corporate objectives.

We generally found officers and staff to be well aware of the importance of effective control frameworks and compliance, and also open to our suggestion for improvements or enhancements where needed. Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible officers. Progress with implementing agreed actions is reported to the Audit Committee throughout the year through the regular internal audit progress reports.

6. Quality Assurance and Improvement

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

The QAIP must include provision for both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

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

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

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

7. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through endorsement from the Institute of Internal Auditors that:

'the Southern Internal Audit Partnership conforms to the Definition of Internal Auditing; the Code of Ethics; and the Standards'.

There are no disclosures of Non-Conformance to report.

8. Quality Control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. Complementing the QAIP this was achieved in 2023-24 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success.
- A tailored audit approach using a defined methodology and assignment control documentation.
- Review and quality control of all internal audit work by professional qualified senior staff members.
- An internal quality assessment against the IPPF, PSIAS & LGAN.

9. Internal Audit Performance

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

Performance Indicator	Target	Actual
Percentage of internal audit plan delivered (to draft report)	95%	65%
Positive customer survey response - SIAP – all Partners*	90%	98%
Public Sector Internal Audit Standards	Compliant	Compliant

**Customer satisfaction is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey 2024).*

10. Acknowledgement

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

Antony Harvey
Deputy Head of Southern Internal Audit Partnership

May 2024

Annex 1 - Summary of Audit Assurance Reviews Completed 2023-24

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.

Commercial Activities – Appletree Holdings

Council Tax- Debt Management and Resident Support

Income Collection and Banking

Disabled Facilities Grants

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.

Transformation Programme – Governance Arrangements

Business Continuity

Procurement (Draft)

Employee Benefits/Salary Sacrifice Scheme

National Non-Domestic Rates (NNDR)

Accounts Payable (Draft)

Homelessness – Prevention and Relief (Draft Final)

Housing Asset Management – Electrical Safety Checks

Animal Welfare Licencing (Draft)

Whilst not resulting in an assurance opinion, other planned internal audit activity for the year included:-

Emergency Planning – Position Statement.

Keyhaven – Inspection and Enforcement – Position Statement.

Changing Places Grant – Grant certified.

Telecare – External assurance mapping.

IT Asset Management – Follow-up – all actions implemented.

Advisory/critical friend to two Service Areas.

AUDIT COMMITTEE – 31 MAY 2024

CODE OF GOOD GOVERNANCE REVIEW ANNUAL REPORT OF THE MONITORING OFFICER AND CHIEF FINANCE OFFICER IN RESPECT OF 2023/24

1. RECOMMENDATIONS

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

2. INTRODUCTION

- 2.1 The Council's Monitoring Officer and the Chief Finance Officer are responsible for annually reviewing the Council's compliance against the adopted CIPFA/SOLACE Code of Good Governance - "*Delivering Good Governance in Local Government Framework 2016*" and reporting their findings and recommended actions. This review provides one of the assurance strands in support of the Annual Governance Statement, required under the Accounts and Audit Regulations 2015.
- 2.2 This report brings together the outcomes of the review carried out for 2023/24.

3. REVIEW OF COMPLIANCE

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

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

- 3.2 The Council's compliance with the Code has been assessed, and a summary of the findings is detailed in **Appendix 1**.
- 3.3 This assessment also considers progress made against the previous year's (2022/23) Action Plan, which was reported to Audit Committee in May 2023. The reported progress can be found in **Appendix 2**.

- 3.4 The main areas identified for further consideration arising out of this review are summarised below and form part of the action plan at **Appendix 3**.
1. Implementation of the new corporate report template along with new officer decision record and portfolio holder decision record to support transparent and effective officer and member decision making.
 2. Review Officer Scheme of Delegation and Officer and Member decision-making thresholds within the Financial Regulations - to ensure that the controls and thresholds are appropriate for the Council's decision-making arrangements and ensure efficient running of the Council's services.
 3. To Implement the new performance management framework, to include introduction of new service plan template to be in place with service plans updated prior to budget setting process commencing in Autumn 2024.
 4. Continue to review the strategic and service risk management framework and specific processes to further promote the link between service risk registers and corporate risk register. Review the procedure for ongoing review of service risks at directorate level and ensure a link to service planning and resource management.
 5. Ensure preparation of improved budget information that supports accountability across budget holders, and also supports Portfolio-holder oversight. To support accountability of individual budget holders, specific training and development modules to be made available for example in the operation of the Unit 4 financial system and the development of more accessible budget information.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

- 5.1 The Council is required by s.3 of the Accounts and Audit Regulations 2015 to ensure that it has a sound system of internal control which—

(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;

(b) ensures that the financial and operational management of the authority is effective; and

(c) includes effective arrangements for the management of risk.

Section 6 of the Regulations provides that the Council must, each financial year,

(a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and

(b) prepare an annual governance statement.

This report provides an assessment following the review and contributes to the preparation of the Annual Governance Statement.

6. ENVIRONMENTAL MATTERS

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

7. CRIME AND DISORDER IMPLICATIONS

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

8. EQUALITY AND DIVERSITY IMPLICATIONS

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

9. CONCLUSIONS

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

For Further Information Please Contact:

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Background Papers:

Local Code of Good Governance-
The New Framework March 2017

Alan Bethune
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Strategic Director Corporate Resources & Transformation
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Summary of the Council’s compliance with its adopted Code of Good Governance for period 2023/24

Principle	Assessment of Monitoring Officer and Chief Finance Officer and Evidence
<p>A. How does the organisation behave with integrity, demonstrating strong commitment to ethical values, and respect the rule of law?</p>	<ul style="list-style-type: none"> • Detailed and up to date Constitution on decision making including expected standards of conduct of both Members and officers. • Sound rules on Procurement procedures and Contract Standing Orders which are regularly reviewed to ensure they are fit for purpose. • Comprehensive Scheme of Delegations and transparent decision-making processes. • Robust Financial Regulations setting out clearly thresholds and procedures for officer and Member decision-making and ensuring probity and openness in decision making. • Protocols in place for statutory Chief Officers in carrying out their functions. Statutory officers regularly meet in their statutory capacity to ensure good governance and legality of decision making, as well as robust financial management and to monitor and review ethical governance issues as they arise. • Member and Officer Codes of Conduct are in place, as well as established and robust corporate and Member complaints procedures. The corporate complaints procedure has recently been updated to ensure compliance with the revised Housing Ombudsman and Local Government and Social Care Ombudsman statutory codes effective from April 1st, 2024. • Register of Gifts and Hospitality for Members and Officers. • Up to date whistleblowing policy, equality & diversity and data protection/information governance training modules in place.

<p>B. How does the organisation ensure openness and comprehensive stakeholder engagement?</p>	<ul style="list-style-type: none"> • Community Forum including Parish Councils meeting regularly and Chief Executive meeting with Town and Parish Council clerks. • A Tenant Engagement Strategy approved building on consultation including a Tenant survey of representative 575 tenants, and ongoing Tenant Involvement Group and localised tenant engagement. • Complaints reporting and engagement with complainants. • Consultation on specific strategies and policies – for example the Taxi Licensing Policy. • Well established overview and scrutiny panels open to the public. • Council’s website includes published calendar of meetings, including agendas, minutes and key decisions of both members and officers; meetings streamed live on YouTube and recordings available on the Council’s website; public able to make representations at planning and panel meetings. • FOI/Access to Information policies in place and sound system for dealing with requests for information and good emphasis on compliance with deadlines. • Ongoing compliance with the requirements to publish information proactively including by compliance with the Transparency Code; Annual Financial Report and Annual Governance Statement published.
<p>C. How does the organisation define outcomes in terms of sustainable economic, social and environmental benefits?</p>	<ul style="list-style-type: none"> • The Council has adopted its new comprehensive Corporate Plan from which deliverable and specific service objectives will be clearly prioritised and defined. • Climate Change and Nature Emergency Action Plan • Local Plan policies and through development of new local plan • New performance management framework will incorporate processes for ensuring outcomes are linked to Corporate Plan objectives and defined in terms of economic, social and environmental benefits by link to those specific benefits set out in the Corporate Plan – “People, Place, Prosperity”. • The Greener Housing Strategy • Air Quality strategy development is ongoing and will deliver outcomes to monitor and improve air quality within the District • The Procurement Strategy and gateway process • The Council’s Key Policy Framework and Budget as referred to and defined in the Constitution provides the strategic framework for the Council.

<p>D. How does the organisation determine how to best optimize the achievement of intended outcomes</p>	<ul style="list-style-type: none"> • The recently adopted Corporate Plan and the proposed revised performance management framework set out the clear strategic objectives of the Council and the way in which these outcomes will be further defined, planned and achieved. • Well established reporting to Cabinet, Audit Committee and Overview and Scrutiny Panels in place with stakeholder engagement also achieved through bespoke Task and Finish Groups. • Clear decision making protocols in place. • Transformation Strategy has been adopted and preparation of detailed business case is ongoing and due to be considered in the near future. • Regular Medium Term Financial Planning sets overall context of financial challenges. Risk Register sets overall context for risk management. • Service planning linked to individual Performance Plans and appraisals; regular team meetings and 121s • Officer governance including Executive Management Team and Corporate Change Board and Leadership Team
<p>E. How does the organisation develop the entity's capacity, including the capability of its leadership and the individuals within it?</p>	<ul style="list-style-type: none"> • Member Development Programme – initial year completed post-election 2023 and review now ongoing to ensure future programme meets requirements of individual members and the organisation's priorities. • Good use of Task and Finish Groups to utilise 'Back Bencher' Members on bespoke projects/issues. • Leadership Development work commenced in September 2023, engaging the organisation's senior leadership team. • New LMS in place to ensure training opportunities are identified and monitored. • Comprehensive ongoing leadership development programme – to build capability and capacity commenced in September 2023, engaging the organisation's wider leadership team with 360 degree feedback and coaching. Following this successful conclusion a programme is now being developed to support managers across the Council.

<p>F. How does the organisation manage risks and performance through robust internal control and strong public financial management?</p>	<ul style="list-style-type: none"> • Risk Management Policy in place, as well as Strategic and Service Risk Registers. The further development of service risk registers and the monitoring and review and the link to service plans and corporate risk register to be considered further during 24/25 as set out in Appendix 3. Strategic risks are kept under regular review and reported to overview and scrutiny panels by virtue of the portfolio performance dashboards. • Financial Regulations have undergone extensive review in recent times to ensure they are suitable and fit-for-purpose. Robust financial procedures ensuring probity and openness in making decisions. Detailed Medium Term Financial Planning and Financial Monitoring reporting throughout the year. Suitable level of expertise within the finance and audit functions. External Audit of Annual Financial Report including value for money opinion. Risk based internal auditing service/planning, with progress regularly reviewed by the Audit Committee. Key strategies and policies in place; Anti-Fraud and Corruption Strategy; Information Governance Policy; Information Asset Register; ICT Security Policy; GDPR Action Plan. • Annual and six monthly housing and corporate asset compliance report and related governance structures in place, for example fire safety steering group and statutory compliance board. • The Council's three statutory officers meet on a regular basis to ensure openness and awareness of matters arising including corporate risks and performance, demonstrating strong collective management.
<p>G. How does the organisation implement good practices in transparency, reporting and audit to deliver effective accountability?</p>	<ul style="list-style-type: none"> • Well established reporting to Cabinet, Audit Committee and Overview and Scrutiny Panels. Council website includes published calendar of meetings, including agendas, minutes and key decisions of both members and officers. • Transparency pages on website gives information on contracts, payments to suppliers, access to information and other useful information in line with the Local Government Transparency Code 2015 requirements. • Clear decision making protocols and detailed Scheme of Delegation so that accountability for decisions is clear. Financial responsibility and accountability understood by senior management and members alike. Auditors prepare and present independent Annual Opinion Report, and regular updates on audit plan progress. Sound and suitably resourced internal audit service. Detailed Medium Term Financial Planning and Financial Monitoring reporting throughout the year. Regular financial updates provided by Finance Service to accountable officers. Greater transparency in annual reporting of housing compliance matters in place. Annual Governance Statement reviewed by Audit Committee and external audit. The provision of Internal Audit Services, through the Southern Internal Audit Partnership (hosted by Hampshire County Council), going well.

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

Topic	Responsible Officer	Deadline	Follow up status
To review the Council's Procurement Strategy to ensure that it aligns with the Council's priorities, that value for money is being achieved and processes/procedures are being complied with.	S151 Officer and Monitoring Officer	April 2024	Procurement Strategy reviewed and adopted – Council December 2023
To review the Council's Financial Regulations to ensure that the controls remain appropriate for the Council's decision-making arrangements and ensure efficient running of the business.	S151 Officer and Monitoring Officer	April 2024	Financial Regulations reviewed, amended and adopted following a light touch review in early 2024 and to be subject to further review in light of review of officer scheme of delegation and new Procurement Act 2023
To review the Council's approach to continuous improvement and the existence of a comprehensive development programme for Members and Officers to ensure that there are appropriate arrangements in place to demonstrate that Services are carrying out their continuous improvement functions and that corporately, there is in place an on-going comprehensive Development Programme for Members and Officers.	S151 Officer and Monitoring Officer	April 2024	Leadership Development programme implemented and underway. Member training and development programme implemented post-election through 2023/24 and feedback being obtained. Will be reviewed and updated following feedback to ensure focus on relevant priorities
To review the Council's Corporate Report Template, to promote the effective completion of Impact Assessments as part of formal decision making.	S151 Officer and Monitoring Officer	April 2024	Corporate report template reviewed and new template to be introduced in summer 2024 following final consultation with leadership team and senior officers.

APPENDIX 3

Actions arising from the Good Governance Review 2023/24

Topic	Responsible Officer	Deadline
Implementation of the new corporate report template along with new officer decision record and portfolio holder decision record to support transparent and effective officer and member decision making.	Monitoring Officer	September 2024
Review the Officer Scheme of Delegation and thresholds within the Financial Regulations - to ensure that the controls and thresholds are appropriate for the Council's decision-making arrangements and ensure efficient running of the Council's services.	Monitoring Officer and S151 Officer	December 2024
Implementation of the new performance management framework, to include introduction of new service plan template to be in place with service plans updated prior to budget setting process commencing in Autumn 2024.	S151 Officer	Autumn 2024
Review of risk management processes to ensure link within performance management framework and link between service risk registers and corporate risk register. To include appropriate procedures and clarity of accountability regarding review of service risks at directorate level and escalation process to corporate risk register.	Monitoring Officer and S151 Officer	December 2024
Ensure preparation of improved budget information that supports accountability across budget holders, and also supports Portfolio-holder oversight. To support accountability of individual budget holders, specific training and development modules to be made available for example in the operation of the Unit 4 financial system and the development of more accessible budget information.	S151 Officer	December 2024

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AUDIT COMMITTEE – 31 MAY 2024

DRAFT ANNUAL GOVERNANCE STATEMENT – 2023/24

1. RECOMMENDATIONS

- 1.1 That the Audit Committee approves the draft Annual Governance Statement for the Financial Year ended 31st March 2024 as reported in Appendix 1.

2. INTRODUCTION

- 2.1 As prescribed by the Account and Audit Regulations 2015, regulation 13, the Council is required to produce an Annual Governance Statement (AGS) following an assessment of its governance framework.

- 2.2 The Leader of the Council and the Head of Paid Services (Chief Executive) are required to sign the AGS and be satisfied that the document is supported by reliable evidence. It will be published with the Annual Financial Report and provided to the External Auditor for review.

3. THE ANNUAL GOVERNANCE STATEMENT (AGS)

- 3.1 The Statement seeks to demonstrate that the Council's business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. There is a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which the Council's functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 3.2 In compiling the Statement, the Council has regard to its Internal Control arrangements including the outcomes of the annual Good Governance Review, risk registers, any external auditor reports and other management arrangements. It further considers the process applied in maintaining and reviewing the governance framework including the authority itself, the executive, audit/scrutiny committees and other assurance mechanisms.
- 3.3 Whilst the Council maintains high standards of governance and internal control, some areas for improvement have been identified by the review process mentioned above. These have been reported in the AGS. An Action Plan has been developed accordingly and this will be monitored by the Council's Executive Management Team and Audit Committee.
- 3.4 Whilst the AGS covers the period 1st April 2023 to 31st March 2024, the document remains open for update until it is approved in line with the final sign off of the 2023/24 annual financial report and can make reference to any significant matters that arise.
- 3.5 The Statement has been reviewed by the Executive Management Team. The draft AGS for 2023/24 is attached in Appendix 1.
- 3.6 For members reference, and to support this covering report, an update as against the 2022/23 AGS action plan is provided at Appendix 2.

4. FINANCIAL IMPLICATIONS

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

5. EQUALITIES & DIVERSITY AND ENVIRONMENTAL MATTERS

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

6. CRIME & DISORDER IMPLICATIONS

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

7. CONCLUSIONS

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

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

For Further Information Contact

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Background Papers

Delivering Good Governance in Local
Government Framework 2016

**THE DRAFT ANNUAL GOVERNANCE STATEMENT
NEW FOREST DISTRICT COUNCIL
2023/24**

1. Scope of Responsibility

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

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

2. The Purpose of the Governance Framework

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

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

3. The Governance Framework

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

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

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

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

Over the years, the Council has developed a number of successful joint or collaborative working arrangements with other public partners. This has continued into 2023/24 and includes arrangements with Hampshire County Council (in respect of Audit and Treasury functions) and a joint Information Office 'The Ringwood Gateway' between Ringwood Town Council, HCC and the District Council. During 2023/24, the Council continued to work closely with the New Forest National Park Authority in the provision of Service Level Agreements covering, Finance, HR, ICT and GIS.

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

The Constitution was reviewed during 2022/23 and the new version came into effect following the 4 May 2023 elections.

The Risk Management Framework is in place to ensure that risks to the Council in achieving its strategic objectives, both at a corporate and service level, are more consciously identified, assessed and managed.

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

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

In May 2023 all-out District elections took place with the new ward boundaries in use (according to the Boundary review work concluded during 2022/23), reflecting a new Councillor base of 48, as opposed to the previous 60. The Council is in overall control by the Conservative Party who have with 26 (out of 48) members. The remaining 22 seats are held by 14 Liberal Democrats, 4 Independents, 3 Green Party members and 1 Labour Party Member. Cllr Jill Cleary is the Leader of the Council.

The Section 151 Officer, Monitoring Officer, Strategic Director Place, Operations and Sustainability and Chief Executive all remain involved in the Solent Freeport supporting the broad objective to deliver economic growth to the wider freeport area. The Council has representation on the Solent Freeport Consortium Ltd Board, on the Retained Rates Investment Committee (set up to evaluate projects for funding from the retained business rates pool) and on the Finance Resources and Audit Committee. The council has also utilised the services of a Strategic Regeneration Advisor throughout 2023/24, with a focus on Freeport activities.

4. Review of Effectiveness

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

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

A summary of the review activities undertaken during 2023/24 are included below:

1. A number of Council policies/strategies were reviewed or new plans/policies/strategies implemented including:
 - Corporate Plan
 - Transformation Strategy
 - Private Sector Housing Enforcement Policy
 - Waste and Recycling Collection Policy
 - Procurement Strategy
 - Tenant Engagement Strategy
 - Empty Homes Strategy
 - Risk Management Policy & Strategic Risk Register
 - Lone Working Policy
 - Bullying and Harassment Policy
 - ICT Security and Information Governance Policy
2. The Council's Executive Management Team (EMT) changed during 2023/24. The Council's previous Strategic Director Governance & Housing (and Monitoring Officer) retired in December 2023 which resulted in the creation of an amended Strategic Director Housing & Communities position and a new Assistant Director Governance and Monitoring Officer position. Both positions were filled in February 2024.
3. The Council's overview and scrutiny arrangements were updated in 2023/24, following the formation of the new Council in May 2023, and the new Cabinet shortly thereafter. The 3 new Overview and Scrutiny panels have clear alignment and terms of reference to 2 Portfolio Holders each.
4. The responsibility of Section 151 functions (a statutory role) sits with the Strategic Director for Corporate Resource & Transformation. The Assistant Director Governance is the Monitoring Officer, which is also a statutory role. All committee reports are reviewed by members of the Executive Management Team, as well as being provided to the Monitoring Officer (who is also the Council's Solicitor), prior to any decisions being made. This safeguards the Council to ensure that decisions are taken lawfully and that risks are properly considered.
5. One of the requirements of the GDPR is to appoint a Data Protection Officer (DPO). The role of the DPO is to oversee the Council's compliance with GDPR and provide advice in relation to the law. The DPO position is held by the Council's Information Governance and Complaints Manager, who is a Solicitor who holds the EU General Data Protection Regulation Practitioner qualification. The Information Governance and Complaints Manager has direct access to EMT.
6. A significant project updating the Council's Retention and Destruction schedules has been carried out and was completed during 2023/24.

7. The Council's arrangements for financial management and reporting are sound and are well documented. Financial monitoring is achieved by regular budgetary control reports to nominated budget holders, Executive Management Team, the relevant Portfolio Holder, and Cabinet. All elected Members have access to Cabinet Agendas and the financial reports; a process is in place to enable members to request additional, more detailed information and question any financial issues. Strong Overview and Scrutiny arrangements are in place with clear alignment to the Portfolio responsibilities.
8. Proposals for asset maintenance and replacement expenditure and capital projects are supported by a business case as are new requests for revenue resources. For the 2023/24 budget setting process, these were scrutinised initially by EMT and the relevant Service Portfolio Holder prior to inclusion within the budget setting process. The Council's officer led Capital and Change board meets monthly and provides oversight and scrutiny of Capital projects, as well as tracking their delivery to ensure necessary progress. This Board also considers transformational proposals and ensures their oversight. The financial planning process also includes a review of proposals by the relevant Overview and Scrutiny Panels, before final budgetary proposals and the council tax levels are considered and approved by Council each year.
9. In line with the continuous improvement culture of the Council, it is recognised that all Members and Officers of the Council must have the skills, knowledge and capacity that they need to discharge their responsibilities effectively and therefore significant emphasis is placed on continuous improvement and development. Following the May 2023 election, all elected members took part in a thorough training programme, and specific refresher training is regularly considered.
10. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). A light-touch review of the Council's Financial Regulations was completed during 2023/24 with the new regulations presented to and endorsed by the Audit Committee. The new regulations went live during April 2024, following approval by full Council.
11. Performance Management ensures strategic monitoring with a focus on organisational and service based indicators, reflecting the aims and objectives of the Corporate Plan. Portfolio Holder dashboards were made available to all members during 2023/24 and were re-included with Overview and Scrutiny Panel papers towards the end of the year, providing transparency of performance and risks to service delivery.
12. The Audit Committee meet regularly and training is available to all members to ensure they are clear in their responsibilities in providing an independent assurance to the Council in relation to the effectiveness of the Council's internal control environment, in accordance with Regulation 6 of the Accounts and Audit (England) Regulations 2015.
13. The Council's Strategic Risk Register was continually reviewed during 2023/24, and Cabinet received six-monthly updates. The document remains under regular review as a result of the constantly changing national and international situation.
14. Internal Audit forms part of the internal control framework. It is a mandatory function whose primary aim is to ensure that the Chief Financial Officer's responsibilities, to maintain proper control over the Council's financial affairs, as defined by Section 151 of the Local Government Act 1972, are fully met. The Audit Committee has reviewed and approved the risk based audit plan and progress reports against the audit plan throughout the year. This risk based audit plan was also approved by the Section 151 Officer and the Executive Management Team. The Committee has also received reports and updates from the External Auditor.
15. The Internal Audit function is provided by the Southern Internal Audit Partnership (operated by Hampshire County Council) and accords with the Public Sector Internal Audit Standards.

Internal Auditors are trained and have acted independently, objectively and ethically at all times. The Internal Audit Charter was approved during the year.

16. The Principal Auditor's annual opinion report, concluded that whilst Internal Audit are unable to give absolute assurance, the results of the reviews completed during the year have resulted in his overall opinion that:
 - sufficient assurance work has been carried out to allow a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment
 - New Forest District Council's framework of governance, risk management and control is 'Reasonable' and audit testing has demonstrated controls to be working in practice
 - where weaknesses have been identified through internal audit review, Internal Audit have worked with the Council's management to agree appropriate corrective actions and a timescale for improvement.
17. Ernst & Young acts as the Council's independent external auditor. The Section 151 Officer and Chair of Audit Committee have responded openly to the External Auditor under the requirements of the International Auditing Standards.
18. All organisations, worldwide face increasing cyber related threats. The Council maintains sound standards and continually reviews opportunities to further strengthen these. The Council is a member of the Cyber security Information Sharing Partnership (CISP) and has signed up the South East Government Warning, Advisory and Reposting Point (providing information, knowledge and alerts on threat and incidents).
19. Internal Audit has reported a 'Reasonable' opinion on the overall control environment. No limited assurance audit opinions were given. Monitoring of progress against the management actions associated with all audits will continue into 2024/25.
20. In February 2021, Council made a decision to award an operating contract to Wealdon Leisure Ltd, trading as Freedom Leisure, to commence on 1st July 2021 for an 11 year period, with the option to extend for a further 4 years. An operating agreement has been agreed by both parties and provides for the Council and the operator to have representation on a Contract Partnership Board which is responsible for ensuring the operator delivers on the Council's service specification and performance indicators. This board has met regularly since the commencement of the contract, and regular update reports have been made available to members during the financial year.
21. During 2022/23, the 3 statutory officers, supported by the Democratic Services Manager concluded on a review of the Council's constitution. The revised constitution delivers an updated format, based on the key components and all the necessary information required of a local authority constitution. The purpose of the Constitution is to ensure there is a clear governance framework and effective and accountable decision making; clarity as to the procedures to be followed in respect of meetings and decisions; provisions to enable Members and the public to engage and hold decision makers to account; and to contain rules and procedures relating to the financial management of the Council, and that standards are promoted and maintained. There are numerous legal requirements as to procedure rules and provisions, which must be included. The newly updated and adopted Constitution complies with these requirements.
22. During 2023/24, a fraud matter concluded, resulting in 2 prison sentences for 2 ex-employees of the Council. A full report was received and reviewed by the Audit Committee in March 2024, outlining the procedural and process changes implemented as a result of the matter arising.

5. Financial Management Code

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

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

The Section 151 Officer reported on the Financial Management Code to the Audit Committee in March 2023.

6. Significant Governance Issues

Whilst there have been a number of improvements made throughout the year, the Council constantly strives for continuous improvement. The following areas will be included in the action plan for review in 23/24 (Schedule 1):

1. To Implement the new corporate report template along with new officer decision record and portfolio holder decision record to support transparent and effective officer and member decision making.
2. Review the Officer Scheme of Delegation and thresholds within the Financial Regulations - to ensure that the controls and thresholds are appropriate for the Council's decision-making arrangements and ensure efficient running of the Council's services.
3. To Implement the new performance management framework, to include introduction of new service plan template to be in place with service plans updated prior to budget setting process commencing in Autumn 2024.
4. To review risk management processes to ensure links within performance management framework and link between service risk registers and corporate risk register. To include appropriate procedures and clarity of accountability regarding review of service risks at directorate level and escalation process to corporate risk register.
5. Ensure preparation of improved budget information that supports accountability across budget holders, and also supports Portfolio-holder oversight. To support accountability of individual budget holders, specific training and development modules to be made available for example in the operation of the Unit 4 financial system and the development of more accessible budget information.
6. To review the Council's Contract Standing Orders, in light of the Procurement Act 2023 (live as of October 2024)

7. Certification

To the best of our knowledge, governance arrangements, as defined above, have been in place at New Forest District Council for the year ended 31st March 2024 and up to the date of approval of the annual report and statement of accounts.

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

Signed:

Leader of the Council

Signed:

Chief Executive

Date:

Date:

Schedule 1

Annual Governance Statement Action Plan for 2024/25

Heading	Update / Action	Responsible	Target
Corporate Report Template	<p>Implementation of the new corporate report template along with new officer decision record and portfolio holder decision record to support transparent and effective officer and member decision making.</p> <p>Action: to implement the Corporate Report Template, Officer Decision record and Portfolio Holder Decision record.</p>	S151 Officer and Monitoring Officer	September 2024
Officer Scheme of Delegation and Financial Regulations	<p>The Officer Scheme of Delegation and Financial Regulations will be reviewed during 2024/25</p> <p>Action: to complete a review of the Council's Officer Scheme of Delegation and Financial Regulations</p>	S151 Officer and Monitoring Officer	December 2024
Performance Management Framework (PMF)	<p>To include introduction of new service plan template to be in place with service plans updated prior to budget setting process commencing in Autumn 2024</p> <p>Action: To implement a new PMF and Service Plans</p>	S151 Officer	Autumn 2024
Risk Management	<p>Review of risk management processes to ensure link within performance management framework and link between service risk registers and corporate risk register. To include appropriate /procedures and clarity of accountability regarding review of service risks at directorate level and escalation process to corporate risk register.</p> <p>Action: Review Risk Management Strategy and process to ensure links to PMF.</p>	Monitoring Officer and S151 Officer	December 2024
Improved Budget Information	<p>Ensure preparation of improved budget information that supports accountability across budget holders, and also supports Portfolio-holder oversight. To support accountability of individual budget holders, specific training and development modules to be made</p>	S151 Officer	December 2024

	<p>available for example in the operation of the Unit 4 financial system and the development of more accessible budget information.</p> <p>Action: Develop financial reporting and provide training for system users</p>		
Contract Standing Orders	<p>The Council's Contract Standing Orders will be reviewed during 2024/25</p> <p>Action: to complete a review of Contract Standing Orders, in light of the Procurement Act 2023 (live as of October 2024)</p>	S151 Officer, Monitoring Officer and Strategic Procurement Officer	October 2024

Annual Governance Statement update on 2023/24 action plan

The following table is provided to confirm actions as against the 22/23 action plan. It is not a core part of the 22/23 Annual Governance Statement (appendix 1).

Heading	Update / Action	Responsible
Procurement Strategy	<p>An updated Procurement Strategy will be prepared during 2023/24 to ensure it remains fit-for-purpose to take forward procurement activity, including suitable internal thresholds and compliance to legislative thresholds.</p> <p>Action: COMPLETE</p> <p>Strategic Procurement Manager reviewed and set out an updated strategy to EMT / Resources and Transformation Overview and Scrutiny / Cabinet and was approved by Council in December 2023</p>	S151 Officer and Monitoring Officer
Financial Regulations	<p>The Council's Financial Regulations will be reviewed during 2023/24</p> <p>Action: COMPLETE</p> <p>a light-touch review of the Council's Financial Regulations was completed during 2023/24, with updated regulations approved by Council in April 24</p>	S151 Officer and Monitoring Officer
Continuous Improvement – Members and Officers	<p>A review of the Council's approach to continuous improvement and the existence of a comprehensive development programme for Members and Officers to ensure that there are appropriate arrangements in place to demonstrate that Services are carrying out their continuous improvement functions and that corporately, there is in place an on-going comprehensive Development Programme for Members and Officers, will be carried out in 2023/24.</p> <p>Action: IN PROGRESS</p> <p>Leadership development programme implemented and underway.</p> <p>Member training and development programme implemented post-election through 2023/24.</p>	S151 Officer and Monitoring Officer

<p>Corporate Report Template</p>	<p>A review of the Councils Corporate Report Template will be completed to promote effective completion of Impact Assessments as part of formal decision making.</p> <p>Action: IN PROGRESS</p> <p>Corporate report template reviewed and new template to be introduced in summer 2024 following final consultation with leadership team and senior officers.</p>	<p>S151 Officer and Monitoring Officer</p>
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AUDIT COMMITTEE – 31 MAY 2024

DRAFT ANNUAL FINANCIAL REPORT 2023/24

1. Recommendations

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

2. Introduction

- 2.1 The Council's statutory Annual Financial Report, which includes 6 Statements of Account, will be presented to this Committee after completion of the external audit (currently scheduled to take place from September). Prior to submission for audit, it will be signed by the certified Responsible Financial (S151) Officer as complete and presenting the position of the Council, as at 31 March 2024.
- 2.2 Current regulations require that the draft statement of accounts is authorised for issue by the 31 May 2024 and the 30 day period for the exercise of public rights must commence by 1 June 2024. The Annual Governance Statement (AGS) must also be approved by 31 May 2024 and published alongside the draft accounts for the period for the exercise of public rights.
- 2.3 Audit completion backstop dates have currently been proposed by DLUHC as follows:

2022/23 – 30 September 2024
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
- 2.4 The Council's External Auditor has set out an audit plan for 2023/24 which aligns to the required date as above.

3. Purpose of the Report

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

4. Statement of Accounts Position - Prior Years

- 4.1 The Council received the Audit Completion Certificate pertaining to the 2021/22 financial year from the external auditor on 8th May 2024.
- 4.2 An Audit Committee has been diarised for 27th September 2024, for members to receive the audit results report for the 2022/23 audit.

5. Statement of Accounts Position 2023/24

- 5.1 The Council is required to include the following accounting statements within the Annual Financial Report:
- 1a) Comprehensive Income and Expenditure Statement
 - 1b) Expenditure and Funding Analysis (in NFDC management format)
 - 2) Movement in Reserves
 - 3) Balance Sheet
 - 4) Housing Revenue Account
 - 5a) Collection Fund – Council Tax
 - 5b) Collection Fund – Business Rates
 - 6) Cash Flow Statement
- 5.2 The draft Accounting Statements for 2023/24, prior to external audit, are set out in Appendices 1 – 6. The Expenditure and Funding Analysis Statement included as appendix 1b, is a supporting statement to the Comprehensive Income and Expenditure Statement.
- 5.3 The full Draft Unaudited Annual Financial Report will be made available on the Council's Website ([Annual budgets and financial report - New Forest District Council](#)) by the statutory deadline of 31 May 2024. Should any member of the Audit Committee wish to raise any queries on the statement before the next Committee meeting, the contact details for the Council's Chief Financial Officer are included at the foot of this report.

6. Accounting Policy Changes and Other Key Matters

- 6.1 There is a requirement to implement a new Accounting Policy in relation to IFRS16 – Leases with the first year of application being 2024/25. The Council is yet to consider its position on this and will do so in time for application.
- 6.2 A new Corporate Priorities Reserve has been established, utilising the favourable position from the 2023/24 outturn, as outlined in further detail later in this report. A transfer of £1.5 million has been placed into the reserve. Further reporting will follow to the Cabinet on proposals as to how funds will be released and utilised to support the delivery of the Corporate Plan Priorities, including the provision of funding towards the Council's Transformation Programme. In addition, £262,000 has been transferred to the Treasury Management Reserve, resulting in a reserve balance of £300,000 to cover the potential for settlement losses on the Pooled Funds.
- 6.3 For 2023/24, the National Non-Domestic Rate (NNDR or Business Rates) collection fund shows a deficit of £2.5 million. This represents a downward movement of £1.9 million during the year from the brought forward balance. Reserves are in place to address the Council's share of the Collection Fund deficit.
- 6.4 Previous years' reports highlighted changes to the Business Rates Retention scheme that took place in April 2013 and the need for the Council to hold a provision for anticipated successful appeals against rating assessments. As at 1 April 2023 the total provision was £10.193 million, of which the Council's share totalled £4.077 million (40%). Table 1 confirms the movements in the provision during 2023/24 (including use of the provision totalling £6.390 million due to successful appeals following the introduction of the new ratings list), and the revised balances as at 31 March 2024:

Table 1	Total	NFDC
	£'000	£'000
Appeal Provision 1 April 2023	(10,193)	(4,077)
Additional Provisions Made 2023/24	(1,560)	(624)
Amounts Used 2023/24	6,390	2,556
Appeal Provision 31 March 2024	(5,363)	(2,145)

6.5 In producing the accounts for 2023/24, the Council's wholly owned group of companies (Appletree Property Group) have been consolidated as 'Group Accounts'. This means that transactions that took place within the Company accounts need bringing into NFDC accounts, with transactions that took place between NFDC and Appletree being largely cancelled out. The statements produced within this Agenda are the NFDC accounting statements, pre-consolidation. The consolidated accounting statements from part of the overall annual financial report to be signed, audited and published.

7. Summary of Financial Position

7.1 The Comprehensive Income and Expenditure Statement and Balance Sheet show the value of the Council's net worth to have decreased by £31.085 million during 2023/24. The value of net assets held by the Council now totals £419 million. The principal reasons and the breakdown of this year-on-year increase between the various reserves are summarised as follows:

Description	Class	£'000		
Net Decrease in PPE Assets	Asset	(30,582)	(29,394)	Council Dwellings
Assets Under Construction	Asset	2,329	(1,095)	Other Land and Buildings
Decrease in Investment Property	Asset	(360)	167	Vehicles, Plant and Equipment
Decrease in Long-Term Investments	Asset	(5,040)	(257)	Infrastructure
Increase in Short-Term Investments	Asset	6,989	(3)	Community Assets
Decrease in Long Term Debtors	Asset	(222)	(30,582)	
Increase in Short-Term Debtors	Asset	280		
Decrease in Cash and Cash Equivalents	Asset	(2,925)		
Decrease in Short-Term Creditors	Liability	825		
Increase in Long-Term Borrowing	Liability	(5,901)		
Decrease in Provisions	Liability	1,933		
Decrease in Pensions Liability	Liability	1,536		
Developers' Contributions - Receipts in Advance	Asset	5		
Inventories	Asset	41		
Increase in Bad Debt Provision	Asset	(183)		
Short-Term Borrowing	Liability	190		
		(31,085)		
	Usable Reserves		Unusable Reserves	
Business Rates Reserve	(759)		(32,703)	Revaluation Reserve
Capital Programme Reserve	765		199	Capital Adjustment Account
HRA Dev & Acq. Reserve	(2,961)		(230)	Financial Instruments Revaluation Reserve
Other Earmarked Reserves	3,315		(28)	Deferred Capital Receipts Reserve
Capital Receipts Reserve	(139)		1,536	Pensions Reserve
Capital Grants Unapplied	(446)		623	Collection Fund Adjustment Account
Community Infrastructure Levy Unapplied	495		(6)	Accumulating Absences Adjustment Account
Developers' Contributions Unapplied	(746)			
	(476)		(30,609)	

- 7.2 Usable reserves have decreased by £476,000. Adjustments in the Business Rates Reserve totalled a net reduction of £759,000. The net increase in the Committed Schemes Reserve was £917,000. In addition, there has been contributions of £765,000 to the General Fund Capital Programme Reserve and £1.500 million to a Corporate Priorities Reserve. There was a £2.961 million reduction in the Housing Acquisitions and Development Reserve to fund its capital programme and in year revenue deficit.
- 7.3 The 2023/24 original net budget requirement for the General Fund was £22.468 million, an increase of £1.794 million from 2022/23. The Council's budget anticipated being funded £14.020 million from the Council Tax precept (including a £5.63 increase), £7.332 million from retained business rates, and £1.116 million of other funding. The original budget for 2023/24 included a £700,000 contribution to Capital Programme Financing and assumed no contribution from the Budget Equalisation Reserve.
- 7.4 The 2023/24 General Fund requirement was £20.119 million; an overall reduction of £2.349 million from the original budget. Budget rephasings to future years totalled £1.611 million. Additional interest earnings totalled £2.132 million above the original budget reflecting both incomes received from Treasury Management investments and the Appletree Housing Group. The overall transfer from the General Fund to support Capital Programme was £1.107 million higher than the original budget (of £700,000). The balance on the General Fund reserve was maintained at £3 million. A balanced budget has been set for 2024/25.
- 7.5 Housing Revenue Account variations in income and expenditure for 2023/24 totalled £377,000. However, excluding higher depreciation of £492,000 there was a net underspend of £115,000. Income was £358,000 more than originally budgeted, and expenditure was £243,000 higher than originally budgeted. The balance on the account as at 31 March 2024 was retained at £1 million. The original budget for 2024/25 anticipates a break-even position for the year.
- 7.6 The level of approved Capital expenditure is reviewed regularly throughout the year, to ensure that it is achievable within the estimated resources available. The original Capital Programme for 2023/24 (including the gross value of the Coastal Regional Monitoring Programme) was £42.641 million. Actual expenditure was £34,562 million.
- 7.7 The Council retained some of its investments in a variety of long and short/medium term pooled funds in 2023/24. Total treasury management interest earnings were £2.606 million in 2023/24 (£1.34 million in 2022/23). The market value of the £9.050 million invested by the Council in long-term Pooled funds was £8.200 million at 31 March 2024, a reduction of £303,000 from 2022/23. These funds are held as a medium-long term investment, and fluctuations over the last few year-end accounting periods have not been uncommon. The market value of the £2 million short to medium term fund invested at 31 March 2024 is £2.004 million, an increase of £46,000 in the year.

7.8 The Council's Balance Sheet shows a net pension liability of £19.626 million; a decrease of £1.536 million from 31 March 2023. The discount factor used by the actuary has increased from 4.7% to 4.8%, this, alongside an increase in CPI assumption from 2.7% to 2.8% has reduced liabilities. Statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, as the liabilities under the scheme will be made good by contributions over the working lives of employees. The Pension Fund actuary completed their 3 yearly actuarial review during 2022, which resulted in a new individual primary rate contribution percentage for each scheme member (at organisation level) and confirmed the overall net fund position. The triennial review set contribution rates for 2023/24 – 2025/26.

For Further Information Please Contact:

Alan Bethune

Strategic Director Corporate Resource & Transformation

Chief Financial Officer - Section 151 Officer

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COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2022/23				2023/24			
Gross Expend £000	Gross Income £000	Net Expend £000		Note	Gross Expend £000	Gross Income £000	Net Expend £000
10,095	(3,029)	7,066	Community Safety and Wellbeing		6,151	(2,823)	3,328
18,046	(7,490)	10,556	Environment and Sustainability		17,415	(7,970)	9,445
35,602	(30,437)	5,165	Finance and Corporate		34,183	(29,873)	4,310
10,138	(6,354)	3,784	Housing and Homelessness		9,121	(6,956)	2,165
698	(135)	563	Leader		1,427	(360)	1,067
6,196	(2,006)	4,190	Planning and Economy		5,502	(1,814)	3,688
80,775	(49,451)	31,324	General Fund		73,799	(49,796)	24,003
29,402	(29,863)	(461)	Housing Revenue Account		38,381	(32,286)	6,095
110,177	(79,314)	30,863	Cost of Services		112,180	(82,082)	30,098
			Other Operating Expenditure				
6,987	(2,078)		Town and Parish Council Precepts		7,548		
			(Gains)/Losses on the disposal of Non-Current Assets			(1,523)	
			VAT Assessment / (Refund)			(668)	
		4,909	Total Other Operating Expenditure				5,357
			Financing and Investment Income and Expenditure				
			Interest Payable and Similar Charges:				
10			- General Fund		4		
4,099			- HRA		4,731		
	(3)		Expected Credit (Gain)/Loss on Investments				
1,768	(1,867)		Changes in the fair value of Investments		321	(90)	
			Other Investment Income			(3,585)	
2,221			Net interest on the net defined benefit liability/(asset)	35	1,001		
	(413)		Income, expenditure and changes in the fair value of Investment Properties	10		(716)	
		5,815	Total Financing and Investment Income and Expenditure				1,666
			Taxation and Non-Specific Grant Income				
	(20,678)		Council Tax Income (incl. Parish precepts)			(21,693)	
	(5,802)		Non-Domestic Rates Income and Expenditure	37		(8,034)	
	(833)		Unringfenced Government Grants	37		(879)	
	(5,765)		Capital Grants and Contributions	37		(4,946)	
		(33,078)	Total Taxation and Non-Specific Grant Income				(35,552)
125,262	(116,753)	8,509	(Surplus)/Deficit on the Provision of Services	5	125,785	(124,216)	1,569
	(34,358)		(Surplus)/Deficit arising from the revaluation of Property, Plant and Equipment Assets			32,626	
	(73,466)		Re-measurement of the defined benefit liability/(asset)	35		(3,109)	
		(107,824)	Other Comprehensive Income and Expenditure				29,517
		(99,315)	Total Comprehensive Income and Expenditure				31,086

Mr A Bethune FCCA – Chief Finance Officer (S151)

Date 31 May 2024

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

	Income and Expenditure chargeable to the General Fund and HRA	Adjustments between the Funding and Accounting Basis	Net Expenditure for the equivalent amounts in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
2023/24:			
Community Safety and Wellbeing	3,093	235	3,328
Environment and Sustainability	8,128	1,317	9,445
Finance and Corporate	4,222	88	4,310
Housing and Homelessness	2,150	15	2,165
Leader	1,005	62	1,067
Planning and Economy	3,573	115	3,688
General Fund	22,171	1,832	24,003
Housing Revenue Account	(6,605)	12,700	6,095
Cost of Services	15,566	14,532	30,098
Total Other Operating Expenditure	6,880	(1,523)	5,357
Total Financing and Investment Income and Expenditure	(42)	1,708	1,666
Total Taxation and Non-Specific Grant Income	(30,606)	(4,945)	(35,552)
(Surplus)/Deficit on the Provision of Services	(8,202)	9,772	1,569
Other Comprehensive Income and Expenditure	7,958	21,559	29,517
Total Comprehensive Income and Expenditure	(244)	31,331	31,086
Opening General Fund and HRA Balances	(4,000)		
Less Deficit/(Surplus) on General Fund and HRA in Year	(244)		
Transfer to/ (from) Earmarked Reserves	244		
Closing General Fund and HRA Balances	(4,000)		
2022/23:			
Community Safety and Wellbeing	3,135	3,931	7,066
Environment and Sustainability	7,852	2,704	10,556
Finance and Corporate	3,868	1,297	5,165
Housing and Homelessness	3,045	739	3,784
Leader	460	103	563
Planning and Economy	2,754	1,436	4,190
General Fund	21,114	10,210	31,324
Housing Revenue Account	(6,048)	5,587	(461)
Cost of Services	15,066	15,797	30,863
Total Other Operating Expenditure	6,987	(2,078)	4,909
Total Financing and Investment Income and Expenditure	1,287	4,528	5,815
Total Taxation and Non-Specific Grant Income	(27,314)	(5,764)	(33,078)
(Surplus)/Deficit on the Provision of Services	(3,974)	12,483	8,509
Other Comprehensive Income and Expenditure	14,365	(122,187)	(107,824)
Total Comprehensive Income and Expenditure	10,391	(109,704)	(99,315)
Opening General Fund and HRA Balances	(4,000)		
Less Deficit/(Surplus) on General Fund and HRA in Year	10,391		
Transfer to/ (from) Earmarked Reserves	(10,391)		
Closing General Fund and HRA Balances	(4,000)		

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Earmarked General Fund / HRA Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Community Infrastructure Levy Unapplied	Developers' Contributions Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2022	(3,000)	(37,068)	(1,000)	(5,895)	(2,001)	(7,023)	(4,790)	(60,777)	(290,187)	(350,964)
<i>Movement in reserves during 2022/23</i>										
(Surplus)/deficit on the provision of services	9,033	0	(524)	0	0	0	0	8,509	0	8,509
Other comprehensive income and expenditure	0	0	0	0	0	0	0	0	(107,824)	(107,824)
Total Comprehensive Income and Expenditure	9,033	0	(524)	0	0	0	0	8,509	(107,824)	(99,315)
Adjustments between accounting basis and funding basis under regulations (note 7)	(2,117)	0	3,999	(291)	(943)	(1,447)	547	(252)	252	0
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	6,916	0	3,475	(291)	(943)	(1,447)	547	8,257	(107,572)	(99,315)
Transfers to/(from) earmarked reserves (note 8)	(6,916)	9,953	(3,475)	0	0	438	0	0	0	0
(Increase) / Decrease in Year	0	9,953	0	(291)	(943)	(1,009)	547	8,257	(107,572)	(99,315)
Balance at 31 March 2023	(3,000)	(27,115)	(1,000)	(6,186)	(2,944)	(8,032)	(4,243)	(52,520)	(397,759)	(450,279)
<i>Movement in reserves during 2023/24</i>										
(Surplus)/deficit on the provision of services	(4,092)	0	5,661	0	0	0	0	1,569	0	1,569
Other comprehensive income and expenditure	0	0	0	0	0	0	0	0	29,517	29,517
Total Comprehensive Income and Expenditure	(4,092)	0	5,661	0	0	0	0	1,569	29,517	31,086
Adjustments between accounting basis and funding basis under regulations (note 7)	983	0	(2,801)	139	446	(606)	746	(1,093)	1,093	0
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	(3,109)	0	2,860	139	446	(606)	746	476	30,610	31,086
Transfers to/(from) earmarked reserves (note 8)	3,109	(360)	(2,860)	0	0	111	0	0	0	0
(Increase) / Decrease in Year	0	(360)	0	139	446	(495)	746	476	30,610	31,086
Balance at 31 March 2024	(3,000)	(27,475)	(1,000)	(6,047)	(2,498)	(8,527)	(3,497)	(52,044)	(367,149)	(419,193)

BALANCE SHEET AS AT 31 MARCH

2022/23			2023/24	
£000	£000	Notes	£000	£000
		Long-Term Assets		
		Property, Plant and Equipment:		
455,835		Council Dwellings	9	426,441
74,822		Other Land and Buildings	9	73,727
5,286		Vehicles, Plant and Equipment	9	5,453
2,509		Infrastructure	9	2,252
537		Community Assets	9	534
6,030	545,019	Assets Under Construction	9	8,359
				516,766
	30,685	Investment Property	10	30,325
	14,608	Long-Term Investments	11	9,568
	4,615	Long-Term Debtors	12	4,393
	<u>594,927</u>	Total Long-Term Assets		<u>561,052</u>
		Current Assets		
2,988		Short-Term Investments	13	9,977
353		Inventories		393
12,214		Short-Term Debtors	14	12,494
(2,866)		Bad Debt Provision	14	(3,049)
15,645		Cash and Cash Equivalents	15	12,720
	<u>28,334</u>	Total Current Assets		<u>32,535</u>
	623,261	Total Assets		593,587
		Current Liabilities		
(4,345)		Short-Term Borrowing	16	(4,155)
(28,580)		Short-Term Creditors	17	(27,755)
	<u>(32,925)</u>	Total Current Liabilities		<u>(31,910)</u>
		Long-Term Liabilities		
(114,003)		Long-Term Borrowing	16	(119,904)
(4,527)		Provisions	18	(2,594)
(365)		Developers' Contributions - Receipts in Advance		(360)
(21,162)		Net Pensions Liability	35	(19,626)
	<u>(140,057)</u>	Total Long-Term Liabilities		<u>(142,484)</u>
	450,279	Net Assets		419,193
		Usable Reserves		
3,000		General Fund Balance		3,000
27,115		Earmarked Reserves	8	27,475
1,000		Housing Revenue Account Balance		1,000
6,186		Capital Receipts Reserve	19	6,047
2,944		Capital Grants Unapplied	20	2,498
8,032		Community Infrastructure Levy Unapplied	21	8,527
4,243	52,520	Developers' Contributions Unapplied	21	3,497
				52,044
		Unusable Reserves		
117,425		Revaluation Reserve	22	84,721
303,314		Capital Adjustment Account	23	303,513
(378)		Financial Instruments Revaluation Reserve	24	(608)
503		Deferred Capital Receipts Reserve	25	475
(21,162)		Pensions Reserve	26	(19,626)
(1,475)		Collection Fund Adjustment Account	27	(852)
(468)	397,759	Accumulating Absences Adjustment Account		(474)
	<u>450,279</u>	Total Reserves		<u>367,149</u>
				419,193

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

2022/23		Notes	2023/24
£000			£000
	Income		
(28,084)	Dwelling rents		(30,224)
(645)	Non-dwelling rents		(662)
(764)	Charges for services and facilities		(923)
(370)	Contributions towards expenditure		(478)
(29,863)			(32,287)
	Expenditure		
5,542	Repairs and maintenance	3	6,406
9,694	Supervision and management		8,622
142	Rents, rates, taxes and other charges		217
13,607	Depreciation, impairment and revaluation of non-current assets	4	22,749
12	Debt Management Costs		15
260	Movement in the allowance for bad debts		227
29,256			38,236
(607)	Net (Income) / Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement		5,949
146	HRA services' share of Corporate and Democratic Core		146
(461)	Net (Income) / Expenditure for HRA Services		6,095
	HRA share of the Operating Income and Expenditure included in the whole authority Comprehensive Income and Expenditure Statement		
(1,969)	(Gain) / Loss on sale of HRA non-current assets		(1,502)
4,100	Interest payable and similar charges		4,731
(193)	Interest and investment income		(612)
563	Net interest on the net defined benefit liability / (asset)	5	251
(13)	Income and expenditure in relation to investment properties and changes in their fair value		(13)
(2,551)	Capital Grants and Contributions Receivable		(3,289)
(524)	(Surplus) or Deficit for the year on HRA services		5,661

COLLECTION FUND

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

COLLECTION FUND – COUNCIL TAX

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

2022/23			2023/24	
£000	£000		£000	£000
	(144,538)	Income		
		Income from Council Tax		(152,269)
		Transfers to / (from) General Fund:		
0		Support Fund Relief	(212)	
0		Hardship Relief	1	
(110)	(110)	Family Annex Relief	(122)	(333)
	(144,648)	Total Income		(152,602)
		Expenditure		
		Precepts:		
100,312		Hampshire County Council	105,535	
17,054		Police and Crime Commissioner for Hampshire	18,173	
5,440		Hampshire and Isle of Wight Fire And Rescue Service	5,813	
20,572		New Forest District Council (including town and parish council requirements)	21,568	
	143,378			151,089
		Bad and Doubtful Debts		
180		Write-offs	269	
346	526	Increase / (decrease) in provisions	362	631
		Contributions:		
	1,774	Previous year's estimated council tax surplus / (deficit)		1,842
	145,678	Total Expenditure		153,562
	1,030	Movement on fund balance		960
	(2,961)	(Surplus) / Deficit at 1 April		(1,931)
	1,030	Movement on fund balance for year		960
	(1,931)	(Surplus) / Deficit at 31 March		(971)

COLLECTION FUND

COLLECTION FUND – BUSINESS RATES

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

2022/23			2023/24	
£000	£000		£000	£000
		Income		
	(61,065)	Income collectable from Business Ratepayers Current System		(65,219)
	208	Transitional Protection Payments		(5,461)
	(60,857)	Total Income		(70,680)
		Expenditure		
32,334		Payments to Government - Business Rates Retention	36,975	
25,867		New Forest District Council	29,580	
5,820		Hampshire County Council	6,655	
647		Hampshire and Isle of Wight Fire And Rescue Service	739	
280		Costs of Collection	288	
9		NFDC - Renewable Energy Schemes	12	
	64,957			74,249
		Bad and Doubtful Debts		
117		Write-offs	258	
71		Increase / (decrease) in provisions	80	
1,693		Increase / (decrease) in Appeals Provision	(4,830)	
	1,881			(4,492)
	(17,424)	Contributions:		
		Previous year's estimated business rates surplus / (deficit)		(976)
	49,414	Total Expenditure		68,781
	(11,443)	Movement on fund balance		(1,899)
15,818		(Surplus) / Deficit at 1 April		4,375
(11,443)		Movement on fund balance for year		(1,899)
	4,375	(Surplus) / Deficit at 31 March		2,476

CASH FLOW STATEMENT

2022/23			2023/24
£000		Notes	£000
8,509	Net (surplus) or deficit on the provision of services		1,569
(13,588)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	28	(26,351)
4,053	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	28	2,803
(1,026)	Net cash flows from Operating Activities		(21,979)
(12,388)	Investing Activities	29	25,586
22,341	Financing Activities	30	(682)
8,927	Net (increase) or decrease in cash and cash equivalents		2,925
(24,572)	Cash and cash equivalents at the beginning of the reporting period		(15,645)
(15,645)	Cash and cash equivalents at the end of the reporting period	15	(12,720)

AUDIT COMMITTEE – 31 MAY 2024

FINAL ACCOUNTS 2023/24 BAD DEBTS WRITE-OFF REPORT

1. RECOMMENDATION

- 1.1 That the contents of the report be noted.
- 1.2 That the proposal to change the current threshold for Service Managers to authorise write-offs from £3,500 to £10,000, as explained in Section 6.2, be approved.

2. INTRODUCTION

- 2.1 This report is an annual report to inform Members of the total bad debts written-off during the financial year 2023/24.
- 2.2 The Council collects Council Tax, Business Rates, Sundry Income, Rent and Parking Charges and every effort is made to collect all sums by the most appropriate and efficient method. It is Council policy to take all practical steps to recover debts, including proactively working with households to provide support, advice and information, and we always encourage those in arrears to contact us so we can discuss their situation and circumstances. We continue to refer to, and work with, Citizens Advice New Forest.
- 2.3 The Council's accounting systems provide automated recovery procedures for the collection of the debts, followed where applicable, by appropriate recovery, and all methods of recovery are considered and where appropriate pursued in line with legislative provision before recommending that debts are written-off, for example enforcement agents, tracing services and through the court. Writing-off a debt is the last resort after all avenues of recovery have been exhausted.
- 2.4 This report is prepared in accordance with the policy for write-offs approved by Council.

3. WRITE-OFFS

- 3.1 Debts have been written-off in the following services during 2023/24:
 - Council Tax
 - National Non-Domestic Rates (NNDR)
 - Housing Benefit
 - Sundry Income
 - Housing and Garage Rents
 - Parking Penalty Charges
 - Stores
- 3.2 The need to write-off debt can arise for a number of reasons, including:
 - Abscond
 - Liquidations and bankruptcies
 - Deceased
 - Small balances
 - Enforcement Agent unable to collect/levy
 - Foreign Vehicles

- 3.3 The total debt written off for 2023/24 was £995,619 (£771,515 for 2022/23). This represents 0.34% of the total income collected (0.27% for 2022/23). Although some debts are written-off in 2023/24 they are not necessarily related to this year due to the timescales involved in pursuing recovery of the debt, for example council tax, where the debt may be from a previous year or years.
- 3.4 The total written-off by each service is detailed in Appendix 1, with Appendix 2 providing comparison values for 2022/23. The appendix also includes the average value of the amount written off, the write off as a percentage of annual income collected and examples of write offs criteria.

4. WRITE-ONS

- 4.1 Write-ons are credited where debtors have overpaid, and they cannot be traced. All reasonable avenues are explored prior to the credit being written back on. Housing Benefit write-ons are where a previous Housing Benefit overpayment debt which has been written-off is reversed to recover the amount.
- 4.2 The table below details the service and the value of accounts that have had a credit on an account which has been written-on, together with comparative figures for 2021/22.

CATEGORY OF DEBT	2023/24 £	2022/23 £
Council Tax	75,506	139,705
National Non-Domestic Rates	13,820	5,038
Housing Benefit overpayments	Nil	10,320
Sundry Income	792	1,268
Housing and Garage rents	3,145	18,301
Parking Penalty Charges	Nil	Nil
TOTAL	90,118	174,632

5. BAD DEBT PROVISION

- 5.1 The Council has made allowances for doubtful debts in the accounts based on what it believes to be a prudent but realistic level of debt collection for each type of debt. For 2023/24, the Council's provision is £3,077 million (£2.866 million in 2022/23), as detailed in Appendix 1
- 5.2 The total provision made for each type of bad debt write off and the total arrears as at 31 March 2024 is also shown in Appendix 1. Members should note, the total provision figures within Appendix 1 include the NFDC provision as outlined above, plus collection fund provisions which relate to other organisations (i.e. Hampshire County Council).
- 5.3 The bad debt provision for council tax and business rates are:

Stage	% for provision
Liability Order	50%
Final	25%
Reminder	10%
Bill	5%

Appendix 3 provides details of the workings.

- 5.4 For Housing Benefit overpayments, a provision of 100% is made for any debt which is greater than one year and 50% where the debt is being recovered by DWP. Where an overpayment is currently being recovered from ongoing entitlement, the migration to Universal Credit may result in an increase to the bad debt provision.
- 5.5 For Sundry Income a provision is made for debts which are greater than one year with an adjusted provision for rent deposit schemes and rent in advance schemes where payment plans often exceed one year, and where we have more information, such as an agreed payment plan.
- 5.6 For existing Housing and Garage tenants a provision is worked out as follows:

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

- 5.7 A provision of 95% is made for debts of former tenant arrears.
- 5.8 Due to the ongoing impact of the cost of living it is expected to be challenging in 2024/25 to recover arrears brought forward from 2023/24.

6. AUTHORITY TO APPROVE

- 6.1 Service Managers have authority to approve write-offs up to certain limits and the Council’s statutory financial officer has authority to approve write-offs of any limit. Details of the current approval limits are shown in Appendix 4A.
- 6.2 Following a review of the number of approvals and reasoning for writing-off debts above the current threshold, it is proposed to increase the upper limit for approval by Service Managers from £3,500 to £10,000 for debts relating to Council Tax, Business Rates, Housing Benefit, Sundry Income and Rents, as detailed in Appendix 4B.
- 6.3 A quarterly report will be provided to the Strategic Director Resources and Corporate Services to detail the write-offs approved.

For Further Information Please Contact:

Ryan Stevens – Service Manager Revenues, Benefits and Customer Services
 Tel: 02380 285693
 Email: ryan.stevens@nfdc.gov.uk

Background papers:

There are none.

APPENDIX 1 WRITE-OFFS 2023/24

Category of Debt	Total Write-off	Number of Accounts	Average value of write-off	Annual Income / Turnover	Provision Made 31/3/2024	Arrears balance as at 31/3/2024	Write-off as % of Turnover	Reasons for write-off
	£		£	£	£	£		
Council Tax	363,213	1,902	191	152,269,000	2,425,960	5,669,000	0.2	Abscond, bankruptcy, deceased, enforcement agent unable to collect, other, small balance.
NDR	274,622	96	2,861	65,219,000	411,440	1,724,000	0.4	Abscond, bankruptcy, no goods on which to levy, other, small balance.
Housing Benefit Overpayments	74,937	305	246	27,386,000	683,120	1,098,000	0.3	Abscond, bankruptcy, collection agency unable to collect, deceased, Local Authority/DWP error, small balance.
Sundry Income	130,401	314	415	10,491,000	856,080	3,742,000	1.2	Abscond, bankruptcy, small balance, deceased, uneconomical to pursue.
Housing and Garage Rents	131,867	214	616	31,453,000	850,000	1,233,000	0.4	Abscond, bankruptcy, deceased, collection agency unable to collect, individual voluntary agreement/debt relief order, old, small balance.
Parking Penalty Charges	12,841	214	60	3,985,000	23,644	77,943	0.3	Abscond, bailiff unable to collect/no goods on which to levy, bankruptcy, foreign vehicle.
Stores	7,738							Change in law, obsolete
Total	995,619	3,045		290,803,000	5,260,244	13,543,943		

APPENDIX 2 WRITE-OFFS 2022/23								
Category of Debt	Total Write-off	Number of Accounts	Average value of write-off	Annual Income / Turnover	Provision Made 31/3/2023	Arrears balance as at 31/3/2023	Write-off as % of Turnover	Reasons for write-off
	£		£	£	£	£		
Council Tax	337,982	1,270	266	144,538,000	2,135,400	5,135,000	0.2	Abscond, bankruptcy, deceased, enforcement agent unable to collect, other, small balance.
NNDR	122,996	39	3,154	61,065,000	331,830	1,194,000	0.2	Abscond, bankruptcy, no goods on which to levy, other, small balance.
Housing Benefit Overpayments	34,450	89	387	28,106,000	719,470	1,082,000	0.1	Abscond, bankruptcy, collection agency unable to collect, deceased, Local Authority/DWP error, small balance.
Sundry Income	96,225	151	637	8,819,000	809,960	5,131,000	1.1	Abscond, bankruptcy, small balance, deceased, uneconomical to pursue.
Housing and Garage Rents	165,603	284	583	29,528,000	885,000	1,201,000	0.6	Abscond, bankruptcy, deceased, collection agency unable to collect, individual voluntary agreement/debt relief order, old, small balance.
Parking Penalty Charges	13,984	222	63	3,719,000 – total income from parking	23,709	80,235	0.4	Abscond, bailiff unable to collect/no goods on which to levy, bankruptcy, foreign vehicle.
Stores	275							Change in law, obsolete
Total	771,515	2,055		275,775,000	4,905,369	13,823,235		

Council Tax Arrears by Recovery Stage			
	Arrears	Provision	Provision
	£'000	%	£'000
At Liability Order Stage	4,873	50	2,437
At Final Notice Stage	30	25	8
At Reminder Stage	305	10	30
At Bill Stage (by deduction)	461	5	23
Total	5,669		2,498
Reduction for Court Cost Arrears			72
Total			2,426

There is a provision for court costs outstanding.

NNDR Arrears by Recovery Stage			
	Arrears	Provision	Provision
	£'000	%	£'000
At Liability Order Stage	744	50	372
At Reminder Stage	60	10	6
At Bill Stage (by deduction)	963	5	48
Total	1,767		426
Reduction for Court Cost Arrears			15
Total			411

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

SERVICE AREA	SERVICE MANAGER RESPONSIBLE	WRITE OFF / ON CRITERIA	UPPER £ LIMIT PER DEBTOR
Council Tax	Revenues, Benefits and Customer Services	Bankruptcy/Debt relief order Abscond Small Balance (up to £500) Deceased Enforcement Agent unable to collect/no goods on which to levy	£10,000
Business Rates	Revenues, Benefits and Customer Services	Bankruptcy/Liquidation/Indiv vol agreement Abscond Small Balance (up to £500) Deceased Enforcement Agent unable to collect/no goods on which to levy	£10,000
Housing Benefit (including Fraudulent cases)	Revenues, Benefits and Customer Services	Bankruptcy/Debt relief order Abscond Small Balance (up to £500) Deceased LA Error DWP Error Collection Agency unable to collect	£10,000
Sundry Income	Revenues, Benefits and Customer Services	Bankruptcy/IVA/Debt Relief Order Abscond Small Balance (£500) Deceased Collection Agency unable to collect Uneconomic to pursue through the court	£10,000
Housing Rents	Housing	Bankruptcy/Indiv. Vol. Agreement / Debt Relief Order Abscond Small Balance (up to £500) Deceased Collection Agency unable to collect	£10,000
Garages	Housing	Bankruptcy Abscond Small Balance Deceased	£10,000
Penalty Charge Notices	Street Scene	Bankruptcy Abscond Deceased Bailiff unable to collect/ no goods on which to levy Foreign Vehicle	£1,500
Stores	Building Works	Obsolete stock / Damaged stock Picking Error	£1,500
Estates & Valuations	Estates	Bankruptcy Abscond Small Balance (up to £500) Deceased	£1,500
	Section 151 Officer	Any write off/on including; Partial write offs of live accounts, paying accounts, large balances, any other exceptional reason	No Limit

AUDIT COMMITTEE - 31 MAY 2024

ANNUAL FRAUD REPORT 2023/24

1. RECOMMENDATION

1.1 That the Audit Committee note the contents of the report.

2. INTRODUCTION

2.1 The Council is committed to preventing and detecting fraud and will deal openly and forcefully with anyone who acts dishonestly. This report provides an update of the fraud activities for 2023/24.

2.2 The Corporate Fraud and Compliance Officer (0.75 FTE, an increase from 0.56 from 1 January 2024) supported the Revenues, Benefits and Housing team with investigations during 2023/24. The role seeks to promote fraud and error awareness throughout the council. The role is also responsible for the annual Housing Benefit Assurance Process and working with external auditors as part of the Housing Benefit Subsidy claim.

3. FRAUD REFERRALS

3.1 In 2023/24 there have been 87 fraud referrals received relating to entitlement to Housing Benefit, Council Tax Reduction and Single Person Discount, as well as Housing tenancy and Planning. Referrals can be received through different channel, including via our website, by phone to our dedicated line, internally from staff, or from the Department for Work and Pensions. A summary of the type of referrals received is shown in the table below:

Service	Type of referral	No of referrals	Ongoing cases	Closed cases
Benefits				
	Living together	25	10	15
	Undeclared capital	3	2	1
	Undeclared earnings or pensions	12	3	9
	Household composition	13	0	13
	Living elsewhere	11	3	8
	Disability/Other	6	0	6
Housing				
	Housing Tenancy	7	2	5
Revenues				
	Council Tax / Single Person Discount	8	0	8
Other				
	Planning	1	0	1
	Internal	1	0	1
	Total Referrals	87	20	67

- 3.2 Following investigations there has been a total of £67,155 in Housing Benefit overpayments (£27.3million paid out) and £33,888 in Council Tax Reduction non-entitlement (£9.8million awarded). Three Civil Penalties and one Administrative Penalty have been issued. We have worked with the DWP which resulted in a successful prosecution, as per 4.3.
- 3.3 Seven allegations of Housing fraud were received and investigated, working jointly with Housing., These investigations have resulted in three Council properties being returned thus bringing them back into use for much needed accommodation and allocated to a household with a priority housing need.
- 3.4 We have worked with two other local authorities on joint investigations following an allegation of non-occupation of a property and undeclared capital.
- 3.5 One lengthy internal investigation working alongside Hampshire Police and the Crown Prosecution Service resulted in two successful prosecutions and prison sentences.

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

- 4.1 The Council is working in partnership with the Department for Work and Pensions (DWP) on joint investigations and prosecutions whereby Council Tax Reduction fraud will be included along with DWP benefit fraud. This is voluntary for local authorities, but mandatory for the DWP where the local authority signs-up. There is no funding from DWP.
- 4.2 As any Council Tax Reduction “overpayment” will be included with the DWP overpayment, this may increase the likelihood of a sanction or prosecution. There will be no cost to the council where there is a prosecution.
- 4.3 Working relations with the DWP have been steadily improving and has resulted in a joint successful prosecution for Housing Benefit and Council Tax Reduction this year with potentially another three cases in the pipeline.

5. NATIONAL FRAUD INITIATIVE

- 5.1 The council partakes in the Cabinet Office National Fraud Initiative which is a biennial exercise that matches data within and between public and private sector bodies to prevent and detect fraud. There is a legal obligation to supply data but not to undertake the exercise. The Council needs to supply the Cabinet Office with data in September 2024 ready for the data match exercise for the 2024/25 year.
- 5.2 The 2022 to 2024 National Fraud Initiative resulted in 23 applicants being removed from the Homesearch register due to changes in their circumstances and there was £2,689.35 identified in overpaid Council Tax Reduction.

6. HOUSING BENEFIT AWARD ACCURACY

- 6.1 The DWP provide targets on the number of Housing Benefit claims local authorities are expected to undertake and complete a full case review on in order to ensure the

correct level of entitlement is being awarded and to reduce fraud and error. This involves checking the household composition, income, capital and rent.

- 6.2 For 2023/24 our target was to undertake 574 full case reviews, and 762 full case reviews were completed, meaning we exceeded DWP targets.

7. PAYMENTS TO HOUSEHOLDS

- 7.1 The Household Support Fund was administered via an application process to support vulnerable households with housing costs. In developing the application process a fraud risk review was undertaken with recommended actions to mitigate fraud and error, including the supply of bank statements with applications.

8. TRAINING

- 8.1 Our e-learning training module is completed by staff every two years. In April 2024 the Council's new Learning Management System (LMS) went live which included a new Fraud training module for staff to complete.
- 8.2 Information Officers were reminded of the Money Laundering policy and procedure. Refresher training has been provided to Tenancy Management team, including record keeping, on topics such as non-occupation.
- 8.3 There is attendance at the Hampshire Fraud Group to keep updated on any legislative changes and to discuss training, new initiatives, and good practices.

9. FRAUD RISK REGISTER

- 9.1 As part of promoting a counter fraud culture, and to raise awareness, each service is asked to consider and review their fraud risk register for their service. This means Service Managers review their service to identify potential risks of fraud, the controls in place, and if any controls are required to eliminate or mitigate fraud.
- 9.2 Service Managers are responsible for reviewing their Fraud Risk Register as part of an annual review process to ensure accuracy and to reflect any changes to service delivery. The review was undertaken in September 2023 and is scheduled to be reviewed in September 2024, with the Corporate Fraud and Compliance Officer ensuring completion and being available to support if required.

10. PUBLICITY

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

11. FUTURE ACTIVITIES

- 11.1 We have reviewed our website and will be launching our central fraud landing page with links to services, for example Benefits and Housing, to provide information on how to report fraud, as well as information about scams. We will also utilise social media to promote awareness.

- 11.2 We will continue to work with teams to review processes and procedures and to raise awareness of mitigating fraud and error.
- 11.3 SIAP are undertaking an audit of our fraud processes and procedures and we will consider any recommendations resulting from this.
- 11.4 In line with our commitment to review specific policies every three years, the following policies will be reviewed in 2024:
- Anti-Fraud, Bribery & Corruption Strategy
 - Anti-Money Laundering Policy
 - Council Tax Support Penalty and Prosecution Policy

There has been no change to legislation so there is not anticipated to be any significant changes to these policies.

- 11.5 The Council's e-form for reporting fraud to the Council will be reviewed and updated in 2024 to encompass all types of referrals and make it simpler for residents to complete the form.

Further Information:

Ryan Stevens

Service Manager – Revenues, Benefits and Customer Services

ryan.stevens@nfdc.gov.uk

AUDIT COMMITTEE WORK PROGRAMME 2024/2025

ITEM	METHOD	LEAD OFFICER
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
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)

ITEM	METHOD	LEAD OFFICER
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)
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