

Notice of Meeting

Audit Committee

Date: Monday 26 September 2022

Time: 5.30 pm

Venue: Conference Room 1, Beech Hurst, Weyhill Road, Andover,
Hampshire, SP10 3AJ

For further information or enquiries please contact:

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Legal and Democratic Service

Test Valley Borough Council,
Beech Hurst, Weyhill Road,
Andover, Hampshire,
SP10 3AJ

www.testvalley.gov.uk

The recommendations contained in the Agenda are made by the Officers and these recommendations may or may not be accepted by the Committee.

PUBLIC PARTICIPATION SCHEME

If members of the public wish to address the meeting they should notify the Legal and Democratic Service at the Council's Beech Hurst office by noon on the working day before the meeting.

Membership of Audit Committee

MEMBER

WARD

Councillor C Borg-Neal (Chairman)

Andover Harroway

Councillor T Swain (Vice-Chairman)

Chilworth, Nursling & Rownhams

Councillor C Donnelly

Andover Downlands

Councillor N Gwynne

Romsey Cupernham

Councillor M Maltby

Chilworth, Nursling & Rownhams

Councillor J Parker

Romsey Tadburn

Audit Committee

Monday 26 September 2022

AGENDA

**The order of these items may change as a result of members
of the public wishing to speak**

- 1 Apologies**
- 2 Public Participation**
- 3 Declarations of Interest**
- 4 Urgent Items**
- 5 Minutes of the meeting held on 20 June 2022**
- 6 External Audit Update 5 - 82**

To receive an update from Ernst & Young on the progress of the audit of the Council's 2021/22 Statement of Accounts.
- 7 Audit Strategy and Charter 83 - 95**

To provide an update to the Internal Audit function's Charter and Strategy for approval.
- 8 Internal Audit Progress Report to 31 August 2022 96 - 112**

To outline the work undertaken and progress against the Internal Audit Plan for 2022/23 by Internal Audit to 31 August 2022.
- 9 Audit Committee Work Programme 113 - 116**

To consider the work programme of the Audit Committee for the coming year.

10 Corporate Risk Register - 6 monthly Update

117 - 139

To give an update on the risk management process and the key risks contained in the Council's Corporate Risk Register.

ITEM 6

External Audit Update

Report of the Head of Finance & Revenues

Recommended:

1. That the Audit Planning Report, as shown in Annex 1 to the report, be noted.
2. That the Draft Audit Results Report, as shown in Annex 2 to the report, be noted.

SUMMARY:

- The audit of the 2021/22 Statement of Accounts is currently being undertaken by the Council's external auditors, Ernst & Young.
- The auditors will present their Audit Planning Report and Draft Audit Results Report to the Committee.

1 Introduction

- 1.1 Each year, the Council's Statement of Accounts is subject to an external audit. The Council's auditor is Ernst & Young (EY).
- 1.2 Throughout the planning and substantive phases of the audit EY present reports to the Audit Committee.
- 1.3 Attached to this covering report are two updates. These are:
 - The Audit Planning Report
 - Draft Audit Results Report
- 1.4 Ordinarily the planning report would be presented ahead of audit. However, the reasons for this not being possible were explained by EY at the Audit Committee meeting on 20th June. It was agreed that the planning report be presented alongside a progress report at this meeting.
- 1.5 Both reports will be introduced to the committee by representatives from EY.

2 Risk Management

- 2.1 An evaluation of the risks indicate that the existing controls in place mean that no significant risks have been identified at this time.

3 Resource Implications

- 3.1 The cost of the annual audit is included in the approved budget. There are no other resource implications arising from this report.

4 Legal Implications

- 4.1 There are no legal implications arising from the recommendations in this report.

5 Conclusion and reasons for recommendation

- 5.1 Work is well-progressed on the audit of the Council's 2021/22 statement of accounts. Members are presented with a progress update and opportunity to discuss with the Council's external auditor matters related to the audit of the accounts.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	2	File Ref:	N/A
Officer:	Carl Whatley	Ext:	8540
Report to:	Audit Committee	Date:	26 September 2022

Test Valley Borough Council Audit planning report

Year ended 31 March 2022

August 2022

August 2022



Audit Committee
Test Valley Borough
Council
Beech Hurst
Weyhill Road
Andover
SP10 3AJ

Dear Audit Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2021/22 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. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

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

We welcome the opportunity to discuss this report with you on 26 September 2022, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

Enc

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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/>). 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 Test Valley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Test Valley Borough 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 Test Valley Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2021/22 audit strategy





Overview of our 2021/22 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	Details
Risk of fraud in revenue and expenditure recognition	Fraud 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.
Misstatements due to fraud or error	Fraud risk	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.
Accounting for Nitrate Credits	Significant risk	In 2021/22 the Council purchased Nitrate Credits. The scheme enables housing developers to buy Nitrate Credits to offset the footprint on areas vulnerable to Nitrate pollution. These are currently being held within Inventory on the Balance Sheet and are being held at the lower of Cost and Net Realisable Value. This is a new accounting concept for Local Authorities, without specific CIPFA guidance, and is only impacting a small number of entities. Due to this, we have recognised this as a new significant risk in year.
Valuation of Land and Buildings	Inherent risk	The valuation of land and buildings (within Property, Plant and Equipment and Investment Properties) included in the financial statements is complex and often includes a number of assumptions and judgements. Enhanced procedures are required to challenge and evaluate key inputs and assumptions.
IAS 19 – Pensions Accounting	Inherent risk	The Local Authority Accounting Code of Practice and IAS19 require Test Valley Borough Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Authority's pension fund liability is a material estimated balance and the Code requires that this be disclosed on the balance sheet. Accounting for this scheme involves significant estimation and judgement. Due to complexity and size, enhanced procedures are required to challenge and evaluate key inputs and assumptions.

Overview of our 2021/22 audit strategy

Materiality

Materiality has been set at £1.3m, which represents 2% of the prior years gross expenditure on provision of services.

Planning
materiality

£1.37m

Performance
materiality

£1.03m

Audit
differences

£0.069m

Performance materiality has been set at £1.03m, which represents 75% of materiality.

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 and collection fund) greater than £0.069m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2021/22 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Test Valley Borough Council give a true and fair view of the financial position as at 31 March 2022 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 03.

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 plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. 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". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and our work on your value for money arrangements. Therefore to the extent any of these or any other risks are relevant in the context of the Council's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and Value for Money arrangements

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 an entity. 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.

Overview of our 2021/22 audit strategy

Value for money conclusion

We include details in Section 03 but in summary:

- 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 draft a commentary under three reporting criteria (see below). 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 VFM arrangements will be included in the Auditor's Annual Report.

Timeline

The Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years).

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22.

We are working with the Council to deliver the audit ahead of 30 November. In Section 07 we include a provisional timeline for the audit.

Audit team changes

Key changes to our team:

Manager

For the 2021/22 audit Kelly Gates has taken over as the Audit Manager for the Test Valley Borough Council audit.



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02 Audit risks



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.

	What is the risk?	What will we do?
<p data-bbox="120 443 472 496">Risk of fraud in revenue and expenditure recognition*</p> <p data-bbox="120 778 472 810">Financial statement impact</p> <p data-bbox="120 836 539 1246">If revenue transactions were financed from capital resources, this would have the impact of understating revenue expenditure (causing the general fund to be overstated) and overstating capital additions and/or Revenue Expenditure Funded from Capital Under Statute (REFCUS) in the financial statements. Relevant accounts had the following balances in the 2021/22 draft financial statements:</p> <p data-bbox="120 1286 412 1313">PPE Additions: £2.239m</p> <p data-bbox="120 1353 338 1380">REFCUS: £2.232m</p>	<p data-bbox="580 459 1167 715">Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p data-bbox="580 735 1155 890">From our risk assessment, we have assessed that the risk manifests itself through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.</p> <p data-bbox="580 927 1167 1182">Capitalised revenue expenditure could then be inappropriately funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, it could also inappropriately be funded by capital receipts or grants, that should not be used to support revenue.</p>	<p data-bbox="1207 459 2011 486">In order to address this risk we will carry out procedures including:</p> <ul data-bbox="1207 499 2085 727" style="list-style-type: none"> • test a sample of capital additions. We will examine invoices, capital expenditure authorisations and other evidence that supports the appropriateness of these additions. We will ensure that the items are capital in nature, and do not include revenue items; and • test a sample of expenditure classified as REFCUS to ensure that it meets the definition in the Local Government Act 2003 and related regulations and directions. <p data-bbox="1207 778 2119 869">We will utilise our data analytics capabilities to assist with our work through identifying high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.</p>



Audit risks

Our response to significant risks (continued)

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
- 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

Audit risks

Our response to significant risks (continued)

Accounting for Nitrate Credits

What is the risk?

In September 2020 the Department for Environment Food & Rural Affairs (DEFRA) announced the intention to set up a 'Nitrate trading' platform. The idea is that housing developers would be able to buy 'nitrate credits' to offset the footprint of new homes in areas particularly vulnerable to nitrate pollution. Credits could involve funding the creation of habitat like wetlands, meadows and woodland. Developers will need an 'Appropriate Assessment' of the development proposal if there is a likelihood to increase nitrogen loading into protected sites. A nitrogen budget must be calculated and if the site is not nitrate neutral then nitrate mitigation will be required. If this does not result in neutrality, then planning will be refused. The Government announced a pilot scheme in September 2020 to enable development on the Solent in Hampshire where development was prevented because of nitrate pollution to the Solent strait.

The Council has purchased Nitrate Credits within 2021/22. The nitrate credits will therefore need to be accounted for on the Council's balance sheet. The credits need to be valued using an appropriate basis. Given the scheme is new there is not yet an accepted accounting approach for valuation and disclosure of the credits and then how income should be recognised by the Council as the credits are sold.

We will therefore need to understand and agree the approach to accounting and disclosure of this in the 2021/22 financial statements, involving EY financial reporting specialists as necessary to support our work in this area.

What will we do?

We will:

- Ensure that the Nitrate Credits have been valued correctly and on an appropriate basis in the financial statements.
- Ensure the Council has appropriate Powers in place to be able to trade these credits
- Review and challenge the Council's accounting and disclosure assessment as part of our work. This will need to consider both whether the nitrate credits held by the Council should be carried as an asset on its balance sheet and how revenue is recognised in the financial statements as the credits are sold.

Given this is a new area where arrangements for accounting and disclosure are not yet clear we are likely to need to involve an EY financial reporting specialist to support our work.

Financial statement impact

This is a new area the approach to accounting and disclosure in the financial statements for nitrate credits held by the Council is not yet clear.

The Council will therefore need to produce an accounting assessment to support the treatment adopted in its financial statements which we will consider as part of our work.

Audit risks

Other areas of audit focus

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

What is the risk/area of focus?

Valuation of Land and Buildings

The value of land and buildings carried at valuation within Property, Plant and Equipment (PPE), and at fair value within Investment Properties (IP), 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.

Pension Liability Valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2022 this totalled £57.07 million.

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

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

What will we do?

We will:

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

We will:

- Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Test Valley Borough Council;
- Assess the work of the Pension Fund actuary (AON 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 actuarial model; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.



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.

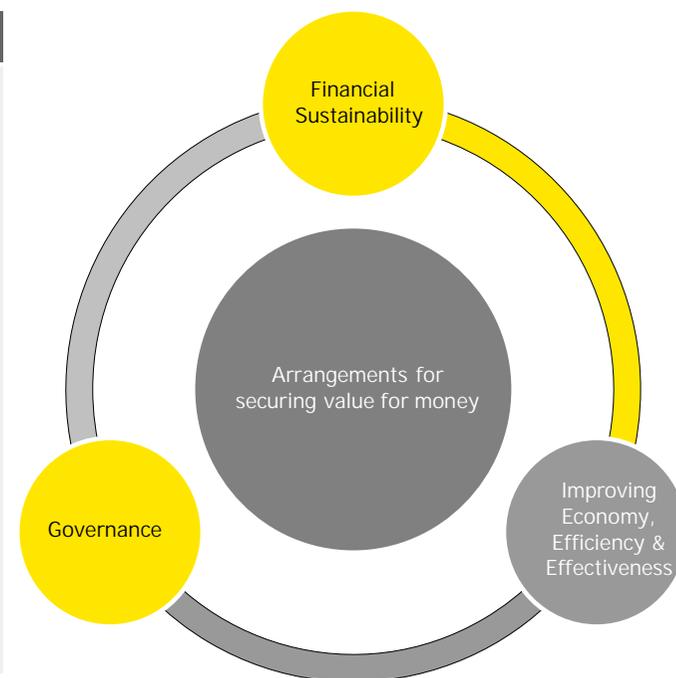
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its 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 commentary on 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 should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM planning

At the time of writing this report, our planning procedures for our initial VFM (value for money) risk assessment remain ongoing. However, based on the wider planning procedures we have completed to date, we have not identified any significant weaknesses in your arrangements.

We will update the Committee once our risk assessment is complete to confirm whether any further risks have been identified, and the work which has been undertaken to address them.



04 Audit materiality



Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £1.37m. This represents 2% of the Council's gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



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 £1.03m which represents 75% of planning materiality.

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

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

Specific materiality – We have set a materiality of £1,000 for officer remuneration, related party transactions, members' allowances and exit packages disclosures appearing in the financial statements. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas.

Audit materiality

Materiality

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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.



05 Scope of our audit



Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to 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 audited body 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 NAO

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

As outlined in Section 03, 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.

Scope of our audit

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

We review internal audit plans and the results of internal audit work. We use this to inform our ongoing assessment of risks likely to impact our responsibilities.



06 Audit team



Audit team

Audit team

Audit team structure:

Kevin Suter
Associate Partner

Kelly Gates
Manager

Taher Merimi
Senior

EY Real Estates

PWC (Consulting
Actuary) and EY
Actuaries

Audit team

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 rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY Actuaries

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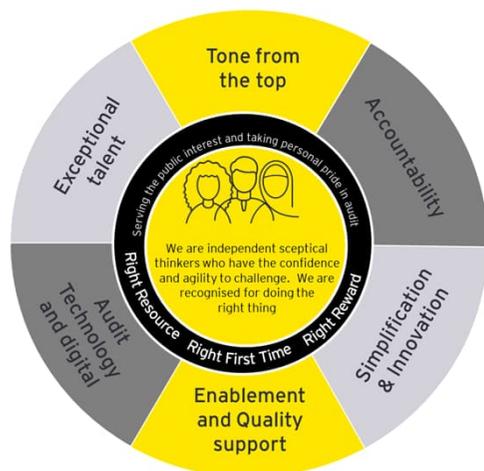
In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

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

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

Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



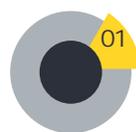
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Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

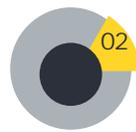
1. Our people are focused on a common purpose. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
 - Right resources – We team with competent people, investing in audit technology, methodology and support
 - Right first time – Our teams execute and review their work, consulting where required to meet the required standard
 - Right reward – We align our reward and recognition to reinforce the right behaviours

3. The six pillars of Sustainable Audit Quality are implemented.



Tone at the top

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality



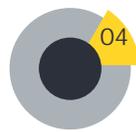
Exceptional talent

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management



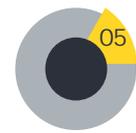
Accountability

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition



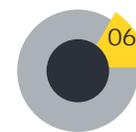
Audit technology and digital

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality



Simplification and innovation

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit



Enablement and quality support

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are encouraged and empowered to challenge and exercise professional scepticism across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

2021 Audit Culture Survey result

A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

“A series of company collapses linked to unhealthy cultures.....have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success.”

Sir John Thompson
Chief Executive of the FRC



07 Audit timeline



Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

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.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning:	February		
Risk assessment and setting of scopes.	March		
Walkthrough of key systems and processes			
	April		
Interim audit testing	May		
Year end audit	June	Audit Committee	Introduction and background to external audit
	July		
	August		
	September	Audit Committee	Audit Planning Report
Audit Completion procedures	December	Audit Committee	Audit Results Report Auditor's Annual Report



08

Independence



Introduction

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

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ 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. 	<ul style="list-style-type: none"> ▶ 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.

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Test Valley Borough Council - Audit Committee - 26 September 2022

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; 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.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved 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.

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

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

Self review threats

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

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

Management threats

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

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

Relationships, services and related threats and safeguards

Other threats

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

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

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021: https://www.ey.com/en_uk/about-us/transparency-report-2021



09

Appendices



Appendix A

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.

A breakdown of our fees is shown in the table below.

	Planned fee 2021/22	Final Fee 2020/21
	£	£
Scale Fee	40,679	40,679
Scale Fee Rebasing (note 1)	25,612	25,612
Scale Fee Variation (note 2)	1,828	15,165
Scale Fee Variation - changes in the Code of Audit Practice and Auditing Standards (note 3)	8,587	8,587
Total fees	76,706	90,043

We note that at this stage, the above fees are estimations and are subject to change based on any new information/issues arising and the PSAA rates. All fees exclude VAT.

2021/22 Fees:

Note 1: Proposed Scale Fee Rebasing: this relates to our scale fee rebasing for the audit, to take into account changes in professional and regulatory requirements to that date. These have been raised in prior year audits and as these are ongoing requirements, we have included the resource impact again in our 2021/22 requested fees. This is the same request that has been submitted in the prior year.

Note 2: This figure also includes a variation to the scale fee for items specific to the audit year where we will be submitting a request for an additional fee due to additional work being undertaken by the audit team. For 2021/22 it includes work undertaken on:

- New Significant Risk: Nitrate Credits (estimated £1,223)
- Work of EY expert to calculate an auditors estimate of the pension liability (estimated £605)

Note 3: This figure shows the impacts of the NAO's 2020 Code of Audit Practice, and the revised ISA540 on estimates. PSAA communicated fee ranges for each type of client, and our assessed impact for Test Valley BC is at the bottom of those ranges. Our estimate is based on a roll-forward of the submission to PSAA from 2020/21.

At the time of writing this report PSAA have not yet determined the final fee for 2020/21.

Appendix B

Required communications with the Audit Committee

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

Required communications	 What is reported?	 Our Reporting to you
		 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. 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	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report Auditor's Annual Report

 Appendix B

Required communications with the Audit Committee (continued)

		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
Subsequent events	<ul style="list-style-type: none"> • Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements 	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 • Any other matters related to fraud, relevant to Audit Committee responsibility 	Audit results report

 Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Planning Report and Audit Results Report

 Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
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
Internal controls	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit results report

 Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report Auditor's Annual Report	
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report Audit results report	
Value for Money	<ul style="list-style-type: none"> Risks of significant weakness identified in planning work Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. 	Audit planning report Audit results report Auditor's Annual Report	

 Appendix C

Additional audit information

Objective of our audit

Our objective is to form an opinion on the Council's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, 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 and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

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

 Appendix C

Additional audit information (continued)

Other required procedures during the course of the audit (continued)

Procedures required by the Audit Code	<ul style="list-style-type: none"> 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 Council's audited financial statements for the relevant reporting period
Other procedures	<ul style="list-style-type: none"> We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice

We have included in Appendix B 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 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.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ey.com

Test Valley Borough Council

Draft Audit results report

Year ended 31 March 2022

September 2022

Contents

ANNEX 2



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

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

This report is made solely to the Audit Panel members and management of Test Valley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Panel, and management of Test Valley Borough 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 Panel members and management of Test Valley Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary



Executive Summary

Scope update

In our audit planning report, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Due to the timing of the Audit Planning Report, there have been no changes to the planned approach of the audit.

Status of the audit

Our audit work in respect of the Council's opinion is underway. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- PPE Valuations
- NDR Appeals Provision
- Accounting for Nitrate Credits
- Journals Testing
- A few queries in relation to audit samples on specific transactions
- Final Review of Work
- Receipt of the Letter of Representation;
- Receipt of the final signed and approved Statement of Accounts.

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix A.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion. We will provide a verbal update to this position at the September Committee.

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Status of the audit – Value for Money

At the time of writing this report, our planning procedures for our initial VFM (value for money) risk assessment remain ongoing. However, based on the wider planning procedures we have completed to date, we have not identified any significant weaknesses in your arrangements.

We will provide an update a verbal update to the Committee to confirm whether any further risks have been identified, and the work which has been undertaken to address them.

Audit differences

At the time of this report we note one audit difference in relation to PPE Additions and Debtors, details of which can be found in Section 3 Audit Differences. We note that work is still ongoing and therefore other audit differences may be identified going forward.

We note also a few Disclosure errors have been identified but there are not material.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We are still to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as the instructions are yet to be issued for 2021/22. We expect that the Council will remain below the de-minimis for full procedures, which in the prior year was set at £2bn. Therefore, we anticipate having no issues to report. However, we will not be able to issue the audit certificate at the same time as the audit opinion, as we cannot certify the completion of the audit until this work is completed.

We have no other matters to report.

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Test Valley Borough Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised below, with the details provided within the "Areas of Audit Focus" section of this report.

Issue	Summary finding
Fraud Risk: Misstatements due to fraud or error	Work in this area is substantially complete. We note that specific journals testing is still to be performed.
Fraud Risk: Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure	Work in this area is substantially complete. PPE Additions: Testing completed. One audit difference of £111k identified. REFCUS: One query outstanding
Significant Risk: Accounting for Nitrate Credits	We note that this is a new area of accounting and disclosure. Therefore we have engaged an EY reporting specialist to look at this area and report on our expected approach. At the time of writing this report, we are yet to receive this report. Once we have received this, we will discuss the outcomes with management.
Other area of audit focus: Valuation of Land and Buildings in Property, Plant and Equipment (PPE) and Investment Properties (IP)	This work is currently underway with queries being raised to management and the external valuer. At present, we are waiting a response to those queries.
Other Area of Audit Focus: Pension Liability Valuation	We have completed our work in this area, and identified a minor disclosure misstatement which management have agreed to update. We note that we are awaiting the receipt of the response letter from the pension fund auditor which will confirm if any issues have been identified.

 Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are no matters we wish to report.

Independence

Please refer to Section 8 for our update on Independence.



02

Areas of Audit Focus

Significant risk

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

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.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

Capitalized revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, other sources such as capital receipts or grants could be inappropriately used to finance the expenditure.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, incorrectly removing the spend from the general fund through applying statutory overrides.



What did we do?

Our approach focused on the following:

- ▶ We selected a sample of Property, Plant and Equipment (PPE) and Investment Property additions to test and confirm the item was appropriate to capitalise as per IAS 16 through agreement to evidence such as invoices and capital expenditure authorisations.
- ▶ We selected a sample of REFCUS items to test to confirm the appropriateness of the classification of these items
- ▶ When performing journals testing, we analysed entries that would be classed as high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised or reclassified as REFCUS.

What are our conclusions?

We tested a sample of PPE and Investment Property additions and noted one audit difference in relation to Property Additions for £111k.

We have one query outstanding in relation to REFCUS but note that currently they appear to be appropriately classified

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions through our test of journals or our other audit procedures which appeared unusual or outside the Council's normal course of business.

Areas of Audit Focus

Significant risk

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 did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding the oversight given by those charged with governance of management's processes over fraud.
- We have considered the effectiveness of management's controls designed to address the risk of fraud.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We note that our journals testing is still outstanding.

Areas of Audit Focus

Significant risk

Accounting for Nitrate Credits

What is the risk?

In September 2020 the Department for Environment Food & Rural Affairs (DEFRA) announced the intention to set up a 'Nitrate trading' platform. The idea is that housing developers would be able to buy 'nitrate credits' to offset the footprint of new homes in areas particularly vulnerable to nitrate pollution. Credits could involve funding the creation of habitat like wetlands, meadows and woodland. Developers will need an 'Appropriate Assessment' of the development proposal if there is a likelihood to increase nitrogen loading into protected sites. A nitrogen budget must be calculated and if the site is not nitrate neutral then nitrate mitigation will be required. If this does not result in neutrality, then planning will be refused. The Government announced a pilot scheme in September 2020 to enable development on the Solent in Hampshire where development was prevented because of nitrate pollution to the Solent strait.

The Council has purchased Nitrate Credits within 2021/22. The nitrate credits will therefore need to be accounted for on the Council's balance sheet. The credits need to be valued using an appropriate basis. Given the scheme is new there is not yet an accepted accounting approach for valuation and disclosure of the credits and then how income should be recognised by the Council as the credits are sold.

We will therefore need to understand and agree the approach to accounting and disclosure of this in the 2021/22 financial statements, involving EY financial reporting specialists as necessary to support our work in this area.



What will we do?

We will:

- Ensure that the Nitrate Credits have been valued correctly and on an appropriate basis in the financial statements.
- Ensure the Council has appropriate Powers in place to be able to trade these credits
- Review and challenge the Council's accounting and disclosure assessment as part of our work. This will need to consider both whether the nitrate credits held by the Council should be carried as an asset on its balance sheet and how revenue is recognised in the financial statements as the credits are sold.

Given this is a new area where arrangements for accounting and disclosure are not yet clear have involved an EY financial reporting specialist to support our work. Currently, we are waiting to receive this report. Once we have received this we will discuss the outcomes with management and provide an update in relation to this area to the December Committee.

Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusions?
<p>Valuation of Property, Plant and Equipment (PPE) including Investment Property</p> <p>Property, Plant and Equipment land and buildings (L&B) measured at Fair Value (FV) or Existing Use Value (EUV) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p> <p>The risk is heightened for assets that may have been impacted by the Covid-19 pandemic, such as traditional retail assets, commercial property or other sectors impacted by the lockdown restrictions and their impact on the economy.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); • Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated; • Considered changes to useful economic lives as a result of the most recent valuation; and • Tested accounting entries have been correctly processed in the financial statements. 	<p>At the time of writing this report, queries have been sent to both management and the external valuer in relation to PPE and IP Valuations.</p> <p>We are currently waiting on a response to these queries. An update to this will be provided to the December Committee.</p>

Other areas of audit focus

What is the area of focus?

Valuation of Pension Liabilities (Local Government Pension Scheme)

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2022 this totalled £57 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

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

In the previous year the pension liability disclosed in the accounts was impacted by national issues that necessitated an updated IAS 19 report from the actuary. It was also impacted by material changes to the value of pension assets at the year end, compared to the estimate made by the actuary to inform the original IAS 19 report.

What did we do?

In order to address this risk we carried out a range of procedures including:

- liaising with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Test Valley BC.
- assessing the work of the LGPS Pension Fund actuary (AON Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Auditors, and considering any relevant reviews by the EY actuarial team; and
- reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19, including any updates to the value of year end assets.

In response to the updated requirements of ISA540, we modified our planned approach and undertook alternate procedures to create an auditor's estimate on the gross pension liability.

What are our conclusions?

We have concluded that we could rely on the work of the Pension Fund actuary, and assessed their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.

The results of the EY pensions specialist has confirmed the actuarial estimate of the gross pension liability to be accurate within a reasonable range.

We note that we have not yet received the response letter from the Pension Fund auditors in relation to the pension asset valuations and other work, but their latest update is that there are no material issues identified.



03 Audit Differences





In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted and unadjusted differences

We highlight the following misstatements greater than our nominal value of £69k that were identified during the course of our audit. We note that we have not yet received the updated Accounts from management and therefore the classification of these adjustments i.e. uncorrected or corrected may change.

Uncorrected misstatements

Overstatement of a Loan Debtor/Understatement of Investment Property AUC of £111k.

Corrected misstatements

- No items to report

Amendments to disclosures

- Minor Note adjustments noted in relation to Note 11, Note 14 and Note 21.



04 Value for Money

VFM Value for money

The Council's responsibilities for value for money (VFM)

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

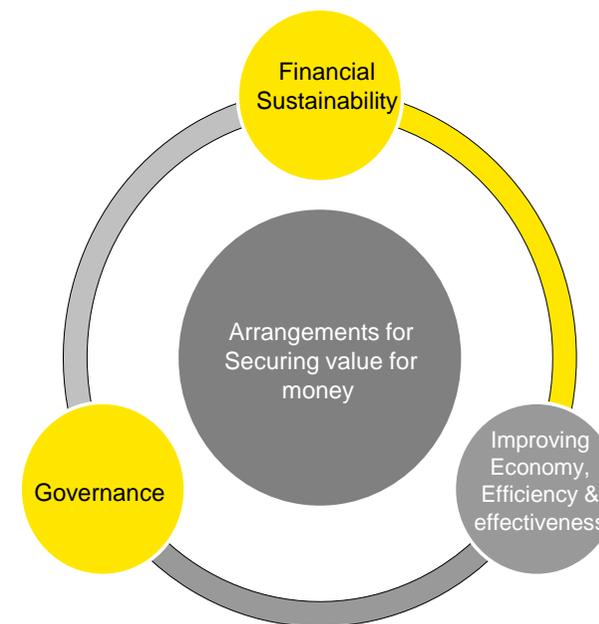
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA Code of Practice on Local Authority Accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and Status of our VFM work

At the time of writing this report, our planning procedures for our initial VFM (value for money) risk assessment remain ongoing. However, based on the wider planning procedures we have completed to date, we have not identified any significant weaknesses in your arrangements.

We will update the Committee once our risk assessment is complete to confirm whether any further risks have been identified, and the work which has been undertaken to address them.

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05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2021/22 with the audited financial statements

- Financial information in the Narrative Statement and published with the financial statements was consistent with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

- We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. We are unable to complete the WGA procedures as the NAO has yet to issued the group instruction as HM Treasury have yet to issue the guidance to Local Authorities.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Test Valley Borough Council’s financial reporting process. We have no other matters to report.



06

Assessment of Control Environment

 Assessment of Control Environment**Financial controls**

It is the responsibility of the Test Valley Borough Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Test Valley Borough Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention



07

Independence

Appendix A

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.

A breakdown of our fees is shown in the table below.

	Planned fee 2021/22	Final Fee 2020/21
	£	£
Scale Fee	40,679	40,679
Scale Fee Rebasing (note 1)	25,612	25,612
Scale Fee Variation (note 2)	1,828	15,165
Scale Fee Variation – changes in the Code of Audit Practice and Auditing Standards (note 3)	8,587	8,587
Total fees	76,706	90,043

We note that at this stage, the above fees are estimations and are subject to change based on any new information/issues arising and the PSAA rates.
All fees exclude VAT.

2021/22 Fees:

Note 1: Proposed Scale Fee Rebasing: this relates to our scale fee rebasing for the audit, to take into account changes in professional and regulatory requirements to that date. These have been raised in prior year audits and as these are ongoing requirements, we have included the resource impact again in our 2021/22 requested fees. This is the same request that has been submitted in the prior year.

Note 2: This figure also includes a variation to the scale fee for items specific to the audit year where we will be submitting a request for an additional fee due to additional work being undertaken by the audit team. For 2021/22 it includes work undertaken on:

- New Significant Risk: Nitrate Credits (estimated £1,223)
- Work of EY expert to calculate an auditors estimate of the pension liability (estimated £605)

Note 3: This figure shows the impacts of the NAO's 2020 Code of Audit Practice, and the revised ISA540 on estimates. PSAA communicated fee ranges for each type of client, and our assessed impact for Test Valley BC is at the bottom of those ranges. Our estimate is based on a roll-forward of the submission to PSAA from 2020/21.

At the time of writing this report PSAA have not yet determined the final fee for 2020/21.

 Independence

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

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

[EY UK 2021 Transparency Report | EY UK](#)



08 Appendices

 Appendix A

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
PPE and IP Valuations	<p>Initial queries have been sent to Management and the External Valuer in relation to PPE and IP valuations.</p> <p>Once responses to these queries have been received, we will need to work through these and review the reasonableness of the valuations.</p>	EY and Management
NDR Appeals Provision	<p>Audit work identified queries in relation to the NDR Appeals Provision calculation. This was pushed back to Management and Management identified that incorrect data had been used in the calculation and therefore this needed to be re-worked. This is currently with management.</p> <p>Once we have had a response to these we will need to work through the calculation again and discuss any further with Management.</p>	EY and Management
Accounting for Nitrate Credits	<p>EY Financial Transaction specialists currently working on a report which will be provided to audit teams documenting a consistent approach to Nitrate Credits,</p> <p>Once this report is received we will need to discuss the outcomes with management.</p>	EY and Management
Final few queries in relation to audit samples	<p>There are a few queries outstanding in relation to audit samples and queries that have been raised e.g. Creditors and Debtors. Once we have received these back from Management we will need to work through the responses.</p>	EY and Management
Receipt of Letter of Representation	<p>Letter of Representation to be signed before the signing of the Audit. Once we are ready to sign, we will discuss the steps to finalise this with management.</p>	EY and Management
Receipts and Review of Final Accounts	<p>Once audit work has been finalised, we will need to receive the final Accounts from Management and check these for any adjustments.</p>	EY and Management

 Appendix A

Outstanding matters

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on remain to be finalised and audited.

We note that a verbal update can be provided at the September Audit Committee with a formal update provided at the December Committee.

 Appendix B

Required communications with the Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. 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	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report Auditor's Annual Report

 Appendix B

Required communications with the Audit Committee (continued)

		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
Subsequent events	<ul style="list-style-type: none"> • Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements 	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: <ul 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 • Any other matters related to fraud, relevant to Audit Committee responsibility 	Audit results report

 Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Planning Report and Audit Results Report

 Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
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
Internal controls	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit results report

 Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report Auditor's Annual Report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report Audit results report
Value for Money	<ul style="list-style-type: none"> Risks of significant weakness identified in planning work Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. 	Audit planning report Audit results report Auditor's Annual Report

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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ITEM 7

Audit Strategy and Charter

Report of the Internal Audit Manager (Portfolio: Finance and Resources)

Recommended:

That the updated Internal Audit Charter and Strategy be approved.

SUMMARY:

- This report provides an update to the Internal Audit function's Charter and Strategy for approval. These set out the mission statement on Internal Audit's role in the Council's risk management process and the core principles for the professional practices of internal auditing.

1 Introduction

- 1.1 The Audit Committee received a report at the June meeting on the Internal Audit function's conformance with the Public Sector Internal Audit Standards UK. (PSIAS). A self-assessment against these standards, although not highlighting any areas of "partial" assurance, did identify some areas where further developments could improve the efficiency and effectiveness of the team going forwards. These included bringing the Audit Charter and Strategy to the Audit Committee to inform Members of the core principles for the professional practices of internal auditing and to obtain endorsement of any future updates. The Audit Charter and Audit Strategy are provided in Annexes 1 and 2 of this report.

2 Internal Audit Charter

- 2.1 The Internal Audit Charter is a policy document that enables the Internal Audit Manager and internal audit activity to effectively carry out their roles in the organisation. It establishes clarity among risk managers within the organisation and among stakeholders of internal audit's role in the risk management process and helps enable them to measure internal audit's value.
- 2.2 The Internal Audit Charter in Annex 1 establishes the Internal Audit Service's purpose, authority, responsibility and position within the Council and the Audit Manager's functional reporting relationship with the Audit Committee. It authorises audit unfettered access to records, personnel, and physical properties relevant to the performance of audit work and defines the scope of internal audit activities.

3 Internal Audit Strategy

- 3.1 The purpose of the Internal Audit Strategy provided in Annex 2 is to outline the strategic approach that will be adopted by the Internal Audit Manager in managing and delivering the Internal Audit Service. The strategy works in conjunction with the Audit Charter. The mission of Internal Audit, as defined by the Public Sector Internal Audit Standards, is "to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight."

4 Corporate Objectives and Priorities

- 4.1 The work of the Internal Audit function supports the Council's four strategic aims for maintaining and improving quality of life in Test Valley, by ensuring that the Council makes the most of its available resources and transforms the way it works, to provide even better value for money and effective service delivery.

5 Consultations/Communications

- 5.1 The Internal Audit Charter and Strategy have been compiled to reflect the Public Sector Internal Audit Standards UK in consultation with the Head of Finance and Revenues/S151 Officer and the Audit Committee.

6 Risk Management

- 6.1 The Internal Audit Charter and Strategy provide clarity on Internal Audit's role in the risk management process and enables measurement of internal audit's value.

7 Resource Implications

- 7.1 There are no resource implications associated with this report.

8 Equality Issues

- 8.1 No adverse equality issues have been identified in relation to the subject matter of this report

9 Conclusion

- 9.1 This report seeks approval of the updated Internal Audit Charter and Strategy provided in Annexes 1 and 2.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	2		
Author:	Jan Balfour	Ext:	8234
File Ref:	N/A		
Report to:	Audit Committee	Date:	26 September 2022



Internal Audit Charter – August 2022

1. Purpose and mission

The purpose of Test Valley Borough Council's internal audit team is to provide independent, objective assurance and consulting services designed to add value and improve Test Valley Borough Council's operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit team helps Test Valley Borough Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

2. Standards for the Professional Practice of Internal Auditing

The internal audit team will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Internal Audit Manager will report periodically to senior management and the Audit Committee regarding the internal audit team's conformance to the Code of Ethics and the Standards.

3. Authority

The Accounts and Audit Regulations 2015 section 5 requires that an Authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control, and governance processes, taking into account public sector internal auditing standards or guidance. The Internal Audit Manager will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Head of Finance & Revenues/s151 Officer. To establish, maintain, and assure that Test Valley Borough Council's internal audit team has sufficient authority to fulfil its duties, the Audit Committee will:

- (a) Approve the internal audit team's charter.
- (b) Approve the risk-based internal audit plan.
- (c) Approve the internal audit team's budget and resource plan.
- (d) Receive communications from the Internal Audit Manager on the internal audit team's performance relative to its plan and other matters.
- (e) Make appropriate inquiries of management and the Internal Audit Manager to determine whether there is inappropriate scope or resource limitations.

The Internal Audit Manager will have unrestricted access to, and communicate and interact directly with, the Audit Committee including in private meetings without senior management present, if considered necessary for the purposes of ongoing investigations.

The Council's Financial Procedure Rules authorise the internal audit team to:

- (a) Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- (b) Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- (c) Obtain assistance from the necessary personnel of Test Valley Borough Council, as well as other specialised services from within or outside Test Valley Borough Council, in order to complete the engagement.

4. Independence and objectivity

The Internal Audit Manager will ensure that the internal audit team remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Internal Audit Manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties, including the Audit Committee.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- (a) Assessing specific operations for which they had responsibility within the previous year.
- (b) Performing any operational duties for Test Valley Borough Council or its affiliates.
- (c) Initiating or approving transactions external to the internal audit team.
- (d) Directing the activities of any Test Valley Borough Council employee not employed by the internal audit team, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Internal Audit Manager has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- (a) Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.

- (b) Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- (c) Make balanced assessments of all available and relevant facts and circumstances.
- (d) Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Internal Audit Manager will confirm to the Audit Committee at least annually, the organisational independence of the internal audit team

The Internal Audit Manager will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

5. Scope of internal audit activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for Test Valley Borough Council. Internal audit assessments include evaluating whether:

- (a) Risks relating to the achievement of Test Valley Borough Council's strategic objectives are appropriately identified and managed.
- (b) The actions of Test Valley Borough Council's officers, Management Team, employees, and contractors are in compliance with Test Valley Borough Council's policies, procedures, and applicable laws, regulations, and governance standards.
- (c) The results of operations or programs are consistent with established goals and objectives.
- (d) Operations or programs are being carried out effectively and efficiently.
- (e) Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Test Valley Borough Council.
- (f) Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- (g) Resources and assets are acquired economically, used efficiently, and protected adequately.

The Internal Audit Manager will report periodically to senior management and the Audit Committee regarding:

- (a) The internal audit team's purpose, authority, and responsibility.
- (b) The internal audit team's plan and performance relative to its plan.
- (c) The internal audit team's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- (d) Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- (e) Results of audit engagements or other activities.

- (f) Resource requirements.
- (g) Any response to risk by management that may be unacceptable to Test Valley Borough Council.

The Internal Audit Manager also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit team may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit team does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

6. Responsibility

The Internal Audit Manager has the responsibility to:

- (a) Submit, at least annually, to senior management and the Audit Committee a risk-based internal audit plan for review and approval.
- (b) Communicate to senior management and the Audit Committee the impact of resource limitations on the internal audit plan.
- (c) Review and adjust the internal audit plan, as necessary, in response to changes in Test Valley Borough Council's business, risks, operations, programmes, systems, and controls.
- (d) Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- (e) Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- (f) Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- (g) Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- (h) Ensure the internal audit team collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- (i) Ensure trends and emerging issues that could impact Test Valley Borough Council are considered and communicated to senior management and the Audit Committee as appropriate.
- (j) Ensure emerging trends and successful practices in internal auditing are considered.
- (k) Establish and ensure adherence to policies and procedures designed to guide the internal audit team.

- (l) Ensure adherence to Test Valley Borough Council's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved by senior management and reported to the Audit Committee.
- (m) Ensure conformance of the internal audit team with the Standards, with the following qualifications:
 - (i) If the internal audit team is prohibited by law or regulation from conformance with certain parts of the Standards, the Internal Audit Manager will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - (ii) If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Internal Audit Manager will ensure that the internal audit team conforms with the Standards, even if the internal audit team also conforms with the more restrictive requirements of other authoritative bodies.

7. Quality assurance and improvement programme

The internal audit team will maintain a quality assurance and improvement programme that covers all aspects of the internal audit team. The program will include an evaluation of the internal audit team's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit team and identify opportunities for improvement.

The Internal Audit Manager will communicate to senior management and the Audit Committee on the internal audit team's quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside Test Valley Borough Council.



Internal Audit Strategy 2022

1. Purpose and mission

The purpose of the Internal Audit Strategy is to outline the strategic approach that will be adopted by the Internal Audit Manager in managing and delivering the Internal Audit Service. The strategy works in conjunction with the audit charter. The mission of Internal Audit, as defined by the Public Sector Internal Audit Standards, is "to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight."

2. Values to meet

Test Valley Borough Council has outlined its key values and principles as part of the Corporate Plan. These principles are vision led, values driven, democratically accountable and evidence based decision making. The Internal Audit function will operate under these principles and will collaborate with and provide value to the Authority by undertaking audits to verify evidence and champion values of Accountability and Integrity.

3. Objectives

The key objectives of the Internal Audit team are to facilitate:

- (a) A sufficient review of the Authority's functions to form an annual opinion on the effectiveness of the control framework. This opinion forms part of the Annual Governance Statement, which is a statutory requirement and must incorporate a statement on Internal Audit's conformance with the Public Sector Internal Audit Standards.
- (b) An assurance on the organisation's governance and control arrangements, including risk management, through the annual audit plan in a way that gives suitable priority to the organisation's objectives and risks.
- (c) An assurance role on major projects including the governance arrangements, risk management and control arrangements.
- (d) Improvement of the organisation's governance, control, and risk management, by highlighting any exceptions raised during testing to line management and agreeing mitigating actions.
- (e) Effective co-operation with external auditors.
- (f) Reactive work such as general advice, consultancy services and investigations that add value to the organisation in meeting its objectives and aims to improve governance and risk management
- (g) Horizon scanning to ensure the inclusion in the audit risk analysis of key areas likely to impact on the organisation, including emerging areas of fraud and theft.
- (h) A service that customers feel they can come to when necessary in confidence and which provides a professional and responsive level of advice and assurance.

4. Audit Planning

The Internal Audit Manager is required to produce an annual plan of audit assignments for each financial year. The Audit Plan will define the Audit Title and a proposed duration of the audit based on the risk assessment that was undertaken at Audit Universe Stage.

The Audit Universe is a collection of all the auditable activities within the organisation. The Audit Universe is generated by the Internal Audit Manager via research, experience, Local Authority knowledge, review of the Corporate and Service Risk Registers, consultation with Senior Management and Councillors. The Audit Universe is always evolving based on information gained as part of ongoing consultation with staff, managers, and senior officers.

On an annual basis, all the activities within the Audit Universe will be risk assessed using scoring criteria with 1 being low and 5 being high.

- (a) Financial Risk
- (b) Operational Risk
- (c) Legal Risk
- (d) Other Risks (Health and Safety, Reputational, Political, Environmental)

The total value of these scores will then be put through a multiplier which will be based on the last time the area was audited and the results of that audit. Any audit which scores above 15, will be deemed as High Risk and therefore will be considered for the Audit Plan.

The Annual Audit Plan will cover between 20-25% of the total population of the audit universe, as agreed with the s151 Officer and Audit Committee. This is comparable with other similar sized Local Authorities.

Risk areas and levels in Local Authorities are ever evolving and as such, there is flexibility in the Annual Audit plan to allow for audit assignments to be deferred, added, or amended. All changes to the Audit Plan will be presented to the Audit Committee.

5. Exceptions

Should any risks be identified as part of the auditing process, they will be highlighted to management during the audit and in the final report that will be produced. These will be raised as exceptions/issues and will be given a risk level and a category in relation to the control framework. Internal audit operates with 3 Risk Levels:

High (1) Major issues for the attention of senior management.

Medium (2) Other recommendations for local management action.

Low (3) Minor matters.

All exceptions raised will require an action to be agreed with and completed by the Audit Client, along with a timescale for implementation. In the event where management decide not to take any action against an identified issue/risk resulting

from an audit assignment, this will be reported to the s151 for comment prior to the issue of the report. All exceptions together with the agreed action and implementation timescale will be recorded in the Council's Performance Management System

6. Follow ups

All exceptions and their agreed actions which have become due for completion and remain open will be reviewed by the Service's Performance board on a quarterly basis. In addition, all exceptions will be followed up by Internal Audit on a 6 monthly basis to review progress of the agreed actions. This will include follow up testing for High-Risk exceptions.

Statistics on the completion of the agreed actions will form part of the Audit Plan Progress reports and Annual Audit report.

7. Resources & Skills

The current Internal Audit team has 3 FTE and is managed by an Internal Audit Manager. The Public Sector Internal Audit Standards for Internal Audit in the UK requires that staff be suitably qualified and experienced. All current staff employed by Internal Audit either has a relevant qualification (CMIIA) or are commencing studying to obtain a professional qualification. In addition, the senior staff have several years' internal audit experience. The internal audit team is resourced to cover high risk areas identified as part of the Audit Universe outlined above.

Skills within the audit team are assessed as part of the Quality Assurance and Improvement Programme (QAIP), referenced in the Audit Charter. Audit assignments are made based on the skills and resources which best suit the subject. Specialist auditing areas, such as contract or IT audit, will be resourced externally if the need arises.

Due to the team being small in numbers, the Internal Audit Manager will ensure there is suitable rotation of audits between the team on an annual basis.

Internal Audit staff will be required to declare, on an annual basis, any areas of audit where they do not feel they can be objective within Test Valley Borough Council. If an issue is identified, the Internal Audit Manager will risk assess and either reappoint an auditor to that assignment or implement other mitigating actions to deal with the potential issue.

Any continuing professional development (CPD) requirements for the team will be considered as part of the QAIP and Training Plans outlined in section 10

8. Audit Opinions and Annual Opinion

Each audit undertaken will result in an Audit Report. Testing undertaken within the audit will be given an assurance level based on the adequacy and effectiveness of the controls tested. Each exception arising will be scored in accordance with the Corporate and Service Risk Register scoring matrix (see below):

Likelihood

A. Very High	Substantial or Limited*	Limited	No Assurance	No Assurance
B. High	Substantial	Limited	Limited or No Assurance*	No Assurance
C. Significant	Substantial	Substantial or Limited*	Limited	Limited or No Assurance*
D. Low	Substantial or Full*	Substantial	Substantial or Limited*	Limited
E. Very Low	Full	Substantial or Full*	Substantial	Limited
F. Almost impossible	Full	Full	Substantial	Substantial or Limited*
	IV	III	II	I
	Negligible	Significant	Critical	Catastrophic
	<u>Impact</u>			

The Audit will then be given an overall assurance level based on the risk posed to the Authority. These assurance levels are:

-  **Full**

There is a sound system of control designed to achieve the system objectives.
-  **Substantial**

While basically there is a sound system there are weaknesses which put some of the control objectives at risk.
-  **Limited**

Weaknesses in the system of controls are such as to put the system objectives at risk.
-  **No Assurance**

Control is generally weak leaving the system open to significant error or abuse.

The overall Annual Audit Opinion will be delivered in the Annual Report and will be based on the adequacy and effectiveness of controls tested within the control framework. The Accounts and Audit Regulations require that Internal Audit provide

independent assurance on the control framework (the Audit Opinion) for inclusion in the Annual Governance Statement (AGS) therefore, the priority for the Internal Audit Service must be to carry out and achieve the planned work as contained in the Annual Audit Plan.

The opinion will be based on the completion of the Audit Plan, assurance levels of the completed audits, the number of exceptions raised, the results of follow up audits, the level of external assurances gained, and the number of investigations undertaken within that year.

The Annual Opinion will also follow the framework of the above Assurance Levels.

9. Additional

The statutory work of the internal audit team is outlined in the Audit Charter section 3, based on the requirements defined in the Accounts and Audit Regulations 2015. The statutory Audit work will always be the main priority of the team, however in addition to the statutory duties; many audit teams logically are involved/manage the following areas on behalf of the Authority:

- (a) Administration of the National Fraud Initiative (NFI) for Test Valley Borough Council
- (b) Involvement on Project Boards for key projects undertaken by the Council
- (c) Fraud Investigations and Probity Reviews
- (d) Facilitation of Risk Management
- (e) Facilitation of Control, Risk, Self-Assessments (CRSAs)
- (f) Review of Corporate Governance Framework to support the Annual Governance Statement
- (g) Ad-hoc Advice and Assurance
- (h) S151 Requests

10. Training & CPD

Staff training will be considered as part of the QAIP, as detailed in the Audit Charter. A mix of professional (Accountancy, Institute of Internal Auditors, IT Audit) training will be combined with in house training provided by senior members of the team.

ITEM 8 Internal Audit Progress Report to 31 August 2022

Report of the Internal Audit Manager (Portfolio: Finance and Resources)

Recommended:

That the Internal Audit progress report be noted.

SUMMARY:

- This report sets out the Internal Audit coverage, findings and performance for 2022/23 to 31 August 2022 and summary risk profile for those areas reviewed.

1 Introduction

- 1.1 The Annual Audit Plan for 2022/23 was approved by the Audit Panel on 14 March 2022.
- 1.2 The scope of audits included in the plan enable a continuing assurance opinion to be provided on the adequacy and effectiveness of the Council's internal control framework and reflects the Council's key priorities and objectives.
- 1.3 A risk assessment has ensured that the Corporate and Service risk registers, in consultation with all Heads of Service and Senior Management, inform the plan and that the audit resource required is matched against available resources.

2 Independence and Objectivity

- 2.1 The Internal Audit Team's independence and objectivity has been maintained in accordance with the Public Sector Internal Audit Standards (PSIAS).

3 Performance against the Audit Plan

- 3.1 Since 1 April 2022, the Internal Audit function has made good progress against the Annual Audit Plan 2022/23 as summarised in the Internal Audit Progress Report in the Annex.
- 3.2 Of the 5 audits reported as complete in the Annex, 3 were classified as substantial assurance and 2 as limited assurance. The executive summary detail, assurance opinion and risk profiling definitions are detailed in the Annex.
- 3.3 All actions arising from audit reviews to date have been accepted by management and programmed for implementation. Progress on the implementation of internal audit actions agreed with management that should have been in place by 31 March 2022 is summarised in the Annex. A review is however currently underway of actions due as at 31 August which will update this position.

4 Compliance with the Public Sector Internal Audit Standards (PSIAS)

- 4.1 The Audit Committee received a report at the June meeting on the Internal Audit function's conformance with the Public Sector Internal Audit Standards UK. (PSIAS). A self-assessment against these standards was carried out in March 2022. The Public Sector Internal Audit Standards are a mandatory requirement, the objectives of which are to:
- (i) Define the nature of internal auditing within the UK public sector,
 - (ii) Set basic principles for carrying out internal audit in the UK public sector,
 - (iii) Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
 - (iv) Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 4.2 No areas of "partial" assurance were highlighted. There were however some areas identified where further developments could improve the efficiency and effectiveness of the team going forwards. These are being progressed during 2022-23 and included:
- Bringing the Audit Charter and Strategy to the Audit Committee to inform Members of the core principles for the professional practices of internal auditing and to obtain endorsement of any future updates. Please see item 7 on the agenda.
 - Seeking opportunities for feedback on the performance of the Internal Audit Manager from the Audit Committee and Chief Executive.
 - Continuing, where appropriate, to develop the use of CAATS (Computer Assisted Audit Techniques), and other methodologies in testing.
 - Developing and reporting on the Internal Audit Team role in project assurance whilst ensuring independence is maintained as clearly expressed in the Audit Charter.
 - Developing and embedding fraud awareness processes.

5 Corporate Objectives and Priorities

- 5.1 The work of the Internal Audit function supports the Council's four strategic aims for maintaining and improving quality of life in Test Valley, by ensuring that the Council makes the most of its available resources and transforms the way it works, to provide even better value for money and effective service delivery.

6 Consultations/Communications

- 6.1 The external auditors have been consulted on the internal audits planned coverage for 2022/23.
- 6.2 The Internal Audit Plan for 2022/23 has involved full consultation with senior management, service heads, external audit, and has been approved by the Audit Committee at its previous meeting.

7 Risk Management

- 7.1 The annual audit plan 2022/23 is based on the Council's risk registers and Internal Audit contributes towards the overall corporate governance framework of assurance.

8 Resource Implications

- 8.1 The Internal Audit Team sustained resource pressure during April pending the appointment of a Trainee Auditor. There is however no shortfall of actual days spent against planned days in the Annual Audit Plan at this stage.
- 8.2 Following restructure of the team in 2021/22 the budget savings have been retained to provide some contingency for external support where needed to enable audit coverage on the core audits or more specialised areas.

9 Equality Issues

- 9.1 No adverse equality issues have been identified in relation to the subject matter of this report

10 Conclusion

- 10.1 This report outlines the work undertaken and progress against the Internal Audit Plan for 2022/23 by Internal Audit to 31 August 2022.
- 10.2 As at 31 August progress on the planned 2022/23 Audit Plan is on target. The procurement of additional external resource will be sought to support the delivery of the plan if needed.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1		
Author:	Jan Balfour	Ext:	8234
File Ref:	N/A		
Report to:	Audit Committee	Date:	26 September 2022



Internal Audit Progress Report as at 31st August 2022

Jan Balfour – Internal Audit Manager

1.0 INTRODUCTION

Internal Audit is a statutory function for all local authorities.

The requirement for an Internal Audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015 as to:

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

The standards for “proper practices” are laid down in the Public Sector Internal Audit Standards (PSIAS) (the standards – updated 2016).

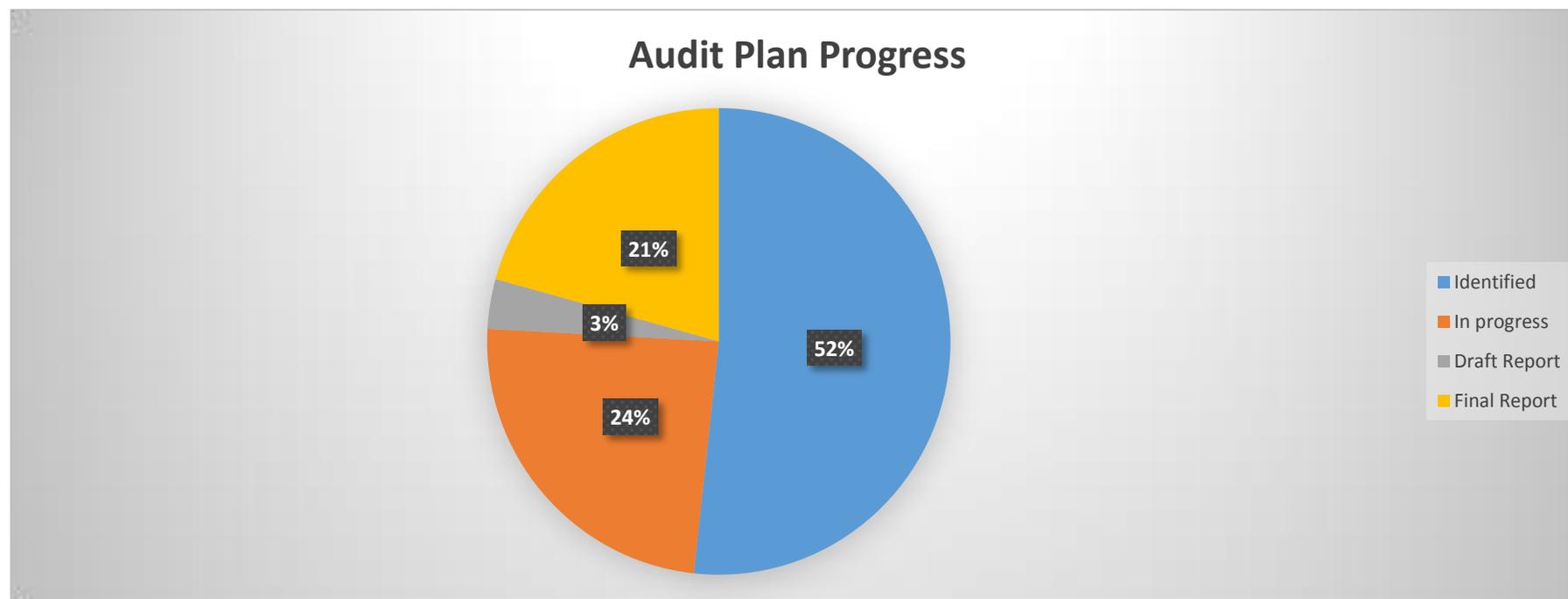
Internal Auditing is an independent, objective and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control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

This report includes the status against the 2022/23 internal audit plan.

2.0 AUDIT PLAN PROGRESS AS AT 31ST AUGUST 2022

There are 27 full audits and 2 follow up reviews totalling 29 reviews. These include the “core” financial audits which are compulsory and take place on an annual basis, cross cutting/corporate audits, and service specific reviews.

To date 6 (21%) have been completed to final report stage, 1 (3%) is at draft report stage and 7 (24%) are in progress as at 31st August 2022.



3.0 ONGOING ACTIVITIES

Internal Audit has provided advice and assurance in the following areas:

7 pieces of advice and assurance.

National Fraud Initiative (NFI) to facilitate national data matching carried out by the Cabinet Office.

Audit Committee reporting and attendance.

Audit Planning and consultation.

Risk Management and Annual Governance Statement.

Work is underway to develop Fraud Awareness and carry out a risk assessment of the Council's Anti-Fraud and Corruption processes and procedures.

Project Assurance role on 11 projects

4.0 CONTINGENCIES

1 special investigation has been undertaken to date.

3 pieces of work have been carried out under the provision for request from the S151 Officer. These have included the £150 energy payments scheme, use of Purchasing Cards and the procurement of VMWare Server replacement.

5.0 AUDIT PLAN CHANGES

The following changes have been made to the Audit Plan since issue of the last progress report.

Audits removed from the Audit Plan:

None to be removed at the current time.

Audits added to the Audit Plan.

3 audits were deferred from the 2021-22 Audit Plan. These included Asset Management (Capital Accounting), Garden Waste and Emergency Planning. 2 have been completed and 1 (Asset Management) is in progress.

2 audits (Grants and Portway Business Park) are held in reserve and will either be included in the 2022-23 if there is capacity to do so or will be considered for inclusion in the 2023-24 Audit Plan.

6.0 ASSURANCE LEVEL/OPINION

Internal Audit Reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives for the area under review.

Assurance Level/Opinion:	Description:
Full	There is a sound system of control designed to achieve the system objectives.
Substantial	While basically there is a sound system there are weaknesses which put some of the control objectives at risk.
Limited	Weaknesses in the system of controls are such as to put the system objectives at risk.
No	Control is generally weak leaving the system open to significant error or abuse.

The **opinion** is formed with reference to the Councils Corporate risk matrix. Each control weakness identified during an audit review is scored according to this matrix. Where * shown this opinion is qualified when selected.

Likelihood

A Very High	Substantial or Limited*	Limited	No Assurance	No Assurance
B High	Substantial	Limited*	Limited Or No Assurance*	No Assurance
C Significant	Substantial	Substantial or Limited*	Limited	Limited Or No Assurance*
D Low	Substantial or Full*	Substantial	Substantial or Limited*	Limited
E Very Low	Full	Substantial or Full*	Substantial*	Limited

F Almost impossible	Full	Full	Substantial	Substantial or Limited*
	IV Negligible	III Significant	II Critical	I Catastrophic
<u>Impact</u>				

7.0 CONTROL WEAKNESS – RISK RANKING

Priority Level:	Description:
High	Major issues for the attention of Senior Management. Action needs to be taken within a reasonable timescale to address significant control weaknesses and to ensure that the controls can be relied upon for the effective performance of the Service or function.
Medium	Issues for middle management action. These include control weaknesses that may expose the system function or process to a key risk but the likelihood of it occurring is significant rather than high.
Low	Minor matters. Low risk exceptions or improvements which help to improve service effectiveness and efficiency.

8.0 EXECUTIVE SUMMARIES

1.

Control Weaknesses Identified:		
High	Medium	Low
0	1	0

PROCUREMENT > £100K 2022/23

Overall Assurance Opinion:
Limited Assurance
Agreed action is scheduled to be implemented by 31/10/22 and is to be discussed as part of a review of Contract Standing Orders.

Scope:	Control Weakness:
<ul style="list-style-type: none"> Compliance with Contract Standing Orders and Public Procurement Regulations. Follow up the actions arising from the 2021-22 audit of the Procurement Amendment Regulations. 	3 out of 4 awarded contracts sampled were call off contracts from framework arrangements and didn't have a signed contract agreement. Contract Standing Orders do not currently provide instruction as to what documentation should be retained for framework arrangements and where this should be held.

2.

Control Weaknesses Identified:		
High	Medium	Low
0	0	0

COVID SUPPORT GRANTS (TEST & TRACE)
2022/23

Overall Assurance Opinion:
Substantial Assurance
No action required.

Scope:	Control Weakness:
<ul style="list-style-type: none"> • Approval of eligibility criteria. • Payments were within the correct timescales to the correct people. • A system was in place for claimants using other languages or those with disabilities. • A system was in place for the application to be electronic. • Pre-payment checks were performed. • TVBC were reimbursed for claims paid. 	

3.

Control Weaknesses Identified:		
High	Medium	Low
1	3	1

FLOATS & IMPRESTS 2022/23

Overall Assurance Opinion:
Limited Assurance
Agreed actions were scheduled to be implemented by 31/08/22 with the majority now addressed. Confirmation of 2 floats to external bodies is pending.

Scope:	Control Weakness:
<ul style="list-style-type: none"> • All Imprests and Floats are accounted for • Imprests and Floats are held securely • Reconciliations are carried out and evidence retained • Guidance is in place to ensure the proper use of Imprests of Floats 	<ul style="list-style-type: none"> • Petty cash records had not been kept up to date at the time of the audit with details of the current holder and float values. • Not all floats were accessible for verification at the time of the audit • Regular reconciliations of the floats were not occurring. • There had been no recent review of the float levels held to determine whether these remained at an appropriate level.

4.

Control Weaknesses Identified:		
High	Medium	Low
0	1	1

**EMERGENCY PLANNING
2022/23**

Overall Assurance Opinion:
Substantial Assurance
Agreed action is scheduled to be implemented by 30/09/22

Scope:	Control Weakness:
<ul style="list-style-type: none"> • Risk Assessments are regularly reviewed. • Emergency Response plans are in place with defined roles and responsibilities. • The Council's participation in the Local Resilience Forum. • Self-assessments and emergency planning exercises are undertaken. • Appropriate delegation and rules are in place to enable decision making. • Provision for rest centres across the borough. • Information security and sharing is appropriate and in line with GDPR guidance. • An Emergency Communications plan is in place. • Coordination with an Out of Hours Service. 	<ul style="list-style-type: none"> • There is currently no joined up approach with the Council's risk management process and registers to acknowledge the impact of management decisions on emergency planning and emergency responses. • The Emergency Communications checklist and templates would benefit from update and review and being centrally located with the Emergency Planning Response Plan.

5.

Control Weaknesses Identified:		
High	Medium	Low
0	0	1

**GARDEN WASTE
2022/23**

Overall Assurance Opinion:
Substantial Assurance
Agreed action was scheduled to be implemented by 30/06/22 and has now been addressed.

Scope:	Control Weakness:
<ul style="list-style-type: none"> Approval of fees and charges Comparison of fees charged with other Local Authorities fees Payment of the annual subscription Updating the route planner for new and cancelled subscriptions The use of the route planner by operatives collecting garden waste Measures to prevent the unauthorised collection of income and removal of garden waste for which a subscription has not been paid Performance Management 	<p>Testing found that for 6 of 74 households analysed, there was an error rate of 8.11% on the route plan. Errors identified were for households who had passed their renewal date without being identified and households who had renewed their subscription, but the route plan did not reflect this.</p>

6.

**FOLLOW UPS
2022/23**

Scope:	Agreement and monitoring of actions:
<p>Review of all actions arising from audit reviews which were due for implementation on or before 31/03/22. The results are summarised in the table below. A review is currently underway to review all actions due on or before 31/08/22 therefore this information does not reflect an up to date position.</p>	<ul style="list-style-type: none"> • All actions arising from audit reports are agreed with the management responsible for the area/function. These actions are monitored by each Service's Performance Board and recorded on the performance management system

Audit Actions:	Risk:	Total:	Complete:	In Progress/Pending:
2018-19	High	0	0 (0%)	0 (0%)
	Medium	27	24 (89%)	3 (11%)
	Low	43	42 (98%)	1 (2%)
2019-20	High	0	0 (0%)	0 (0%)
	Medium	11	8 (73%)	3 (27%)
	Low	27	26 (96%)	1 (4%)
2020-21	High	0	0 (0%)	0 (0%)
	Medium	28	19 (68%)	9 (32%)
	Low	20	16 (80%)	4 (20%)
2021-22	High	0	0 (0%)	0 (0%)
	Medium	23	6 (26%)	17 (74%)
	Low	6	1 (16%)	5 (83%)
Grand Total		185	142 (77%)	43 (23%)

Those actions ranked as “Medium” risk include control weaknesses that may expose the system function or process to a key risk but the likelihood of it occurring is significant rather than high. Those ranked as “Low” include low risk exceptions or improvements which help to improve service effectiveness and efficiency. The remaining “Medium” risk actions are summarised below:

9.0 CONTROL WEAKNESSES

Of the 5 2022/23 audits completed, where an opinion has been given 9 exceptions have been raised:

Risk:	No. of exceptions (actions):
High	1
Medium	5
Low	3

5 Resource Implications

- 5.1 The Audit Plan for 2022/23 has been based on the expected resources of the Internal Audit team. There are no additional resource requirements arising from this item.

6 Legal Implications

- 6.1 There are no legal implications arising from the recommendations in this report.

7 Conclusion and reasons for recommendation

- 7.1 The proposed work programme for the Audit Committee is based on the work previously carried out by the Audit Panel and those functions of other Committees that have been transferred to it.

- 7.2 It is therefore considered to provide a sound basis for the work required to be carried out by the Audit Committee during the year. There will be opportunities to add or amend items on this programme throughout the year.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1	File Ref:	
Officer:	Carl Whatley	Ext:	8540
Report to:	Audit Committee	Date:	26 September 2022

Audit Committee Work Programme

Meeting Date	Item	Lead
26 th September 2022	Internal Audit 1 st quarter update 2022/23	Internal Audit Manager
	Audit Charter	Internal Audit Manager
	2021/22 External Audit progress update	Audit Manager, Ernst & Young
	Corporate Risk Register – 6 monthly update	Internal Audit Manager
	Audit Committee Work Programme update	Head of Finance & Revenues
12 th December 2022	Approval of 2021/22 Statement of Accounts	Accountancy Manager
	Internal Audit 2 nd quarter update 2022/23	Internal Audit Manager
	Review of outstanding audit actions	Internal Audit Manager
	Anti-fraud, whistleblowing and anti-corruption policies – annual update	Internal Audit Manager
	Complaints Annual Report	Policy Manager
	Audit Committee Work Programme update	Head of Finance & Revenues
13 th March 2023	Internal Audit 3 rd quarter update 2022/23	Internal Audit Manager
	Audit Plan 2023/24	Internal Audit Manager
	Draft Annual Governance Statement 2022/23	Head of Finance & Revenues
	Corporate Risk Register – 6 monthly update	Internal Audit Manager
	Consideration of appointment of independent external member	Head of Legal & Democratic Services

	Audit Committee Work Programme update	Head of Finance & Revenues
19 th June 2023	<p>Annual work programme and Terms of Reference</p> <p>Internal Audit – annual report for 2022/23 and progress update 2023/24</p> <p>External Auditor update – Audit Plan Report</p> <p>Audit Committee Member training</p>	<p>Head of Finance & Revenues</p> <p>Internal Audit Manager</p> <p>Audit Manager, Ernst & Young</p> <p>Head of Finance & Revenues</p>

ITEM 10 Corporate Risk Register – 6 Monthly Update

Report of the Internal Audit Manager (Portfolio: Finance and Resources)

Recommended:

That the Council's Corporate Risk Register be noted.

SUMMARY:

This report provides the Audit Committee with:

- An update on the risk management process and the key risks contained in the Council's Corporate Risk Register (attached as Annex 1).
- For information only, a copy of the Council's Risk Management Strategy (attached as Annex 2).

1 Introduction

- 1.1 The purpose of risk management is to manage the barriers to achieving the Council's objectives. Maintaining an up-to-date risk register will assist with allocating resources to manage risks and to monitor the actions to mitigate them.

2 Corporate Risk Register

- 2.1 The Corporate Risk Register has been integrated into, maintained, and reviewed as part of the Council's Performance Management Framework. The register is reviewed by senior management on a quarterly basis. This involves:
- (i) A review of the current risks in the Corporate Risk Register to consider their continuing significance and relevance.
 - (ii) Identification of the key risks facing the Council at the present time to ensure these are all captured in the Corporate Risk Register. The potential consequences of these risks are also considered and what needs to be done to manage them.
- 2.2 The Corporate Risk Register is provided in Annex 1. Where continuity can be reported the register provides the direction of travel for the current risk score compared to the previous risk score.

2.3 The nature of corporate risks is such that the decrease in risk scores will generally be longer term. There will be some risks where the future actions are designed to prevent the risks (likelihood and/or impact) from getting any worse and therefore the score remains the same despite having carried out further actions.

2.4 Risks included in the risk register can generally be split into two categories. Firstly, there are ongoing risks that will always feature (e.g. risks around setting a balanced budget) and secondly, periodic risks that arise as a result of a specific set of circumstances (e.g. the impact of the coronavirus pandemic).

3 Risk Management Strategy

The Risk Management Strategy has been reviewed and there are no significant amendments proposed. A copy is provided in Annex 2 for information.

4 Corporate Objectives and Priorities

4.1 The purpose of risk management is to manage the barriers to achieving the Council's objectives and priorities.

5 Consultations/Communications

5.1 The Corporate Risk Register is subject to regular review and update by senior management on a quarterly basis.

6 Risk Management

6.1 The maintenance of the Council's risk registers contributes towards the overall corporate governance framework of assurance.

7 Resource Implications

7.1 The Internal Audit Manager facilitates the risk management process. This role is segregated from her Internal Audit role and to maintain independence any audit review of risk management is undertaken by the Senior Auditor and reported to the Head of Finance & Revenues/S151 Officer.

8 Equality Issues

8.1 No adverse equality issues have been identified in relation to the subject matter of this report

9 Conclusion

9.1 Risks are identified and managed throughout the year as part of the Council's Performance Management Framework.

- 9.2 The Internal Audit Manager facilitates the risk management process, updates the Corporate Risk register and is able to respond to any queries relating to the risk management process. Any questions relating to the management of specific risks should be referred to the “Risk Owner” shown in the register.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	2		
Author:	Jan Balfour	Ext:	8234
File Ref:	N/A		
Report to:	Audit Committee	Date:	26 September 2022

Corporate Risk Register as at 31/08/22

Introduction

Corporate risks are those which cannot be attributed to specific services or which are so significant they could impact the delivery of primary Council functions. They include corporate governance issues, Members, overall finance matters, reputation and public confidence levels. The management of corporate risks looks at the corporate control measures in place to guard against these risks happening. The focus is on identifying 'key' or 'significant' business risks in relation to the Council's key business objectives.

Risk Profile

Risks are assessed and scored using a 6x4 matrix, according to the potential likelihood of the risk occurring and its impact if it does. The risk score assigns a simple traffic light system which further indicates the priority of the risk and its importance;

- Red risks are high priority and must be addressed immediately then reviewed at least 3 monthly
- Amber risks are medium priority and must be addressed as soon as possible, then reviewed at least 3 monthly
- Green risks are those which are judged to be adequately controlled currently but must still be reviewed at least 3 monthly

By mapping the scores for all the corporate risks onto the risk matrix below this provides the risk profile for the Council as a whole.

Likelihood

A. Very High

B. High

C. Significant

D. Low

E. Very Low

F. Almost impossible

		C26	
	C12, C27, C3	C13	
	C25	C1, C10, C15,	
	C2, C11, C16, C22	C17, C28, C8, C9	C6
	C14		

IV Negligible

III Significant

II Critical

I Catastrophic

Impact

Details of the risks summarised in the Risk Profile are provided in the table below. Internal Audit facilitate the maintenance of the Corporate Risk Register via the Council’s Management Team and provide advice and assurance on mitigating measures. Any questions specific to the risk or the live actions should be referred to the risk owner.

NB: Missing risk reference numbers relate to closed risks that are no longer recorded as Corporate Risks

Risks being managed now:

Risk	Current Risk score	Direction of Travel	Target Risk score met	Live actions
C6 Failure of service and corporate business continuity plans in the event of a serious incident <i>(Risk Owner: Deputy Chief Executive)</i>	Red (DI)	↑	No	1 (linked to C13)
C9 Failure to deliver the outcomes in the Climate Emergency Action Plan <i>(Risk Owner: Head of Planning Policy & Economic Development)</i>	Amber (DII)	↓	No	1
C10 Medium Term Financial Strategy (including	Amber (CII)	↑	No	4

Risk	Current Risk score	Direction of Travel	Target risk score met	Live actions
C13 Council data compromised as a result of Digital (cyber) attack <i>(Risk Owner: Interim Head of IT)</i>	Red (BII)	↑	No	4
C15 Reduction in Commercial Income and Return on Investment <i>(Risk Owners: Head of Finance & Revenues/ Head of Property & Asset Management)</i>	Amber (CII)	↔	No	1

Reserves Policy) does not meet the needs of the Council <i>(Risk Owner: Head of Finance & Revenues)</i>				
C12 Inability to recruit and retain staff <i>(Risk Owner: HR Manager)</i>	Amber (BIII)	↑	No	1
C26 Processes, funding and capacity are insufficient to deliver regeneration projects <i>(Risk Owner: Head of Planning Policy & Economic Development)</i>	Red (All)	↔	Unscored	3

C27 Inability to effectively transition new ways of working pilot into actual working practice <i>(Risk Owner: Head of Strategy & Innovation)</i>	Amber (BIII)	↔	No	2
C28 Inability to effectively absorb the economic shocks arising from global issues (e.g. COVID, war in Ukraine) <i>(Risk Owner: Chief Executive)</i>	Amber (DII)	↔	Unscored	1

Ongoing/Longer Term Risks:

Risk	Current Risk Score	Direction of Travel	Target Risk Score met	Live actions	Risk	Current Risk Score	Direction of Travel	Target Risk Score met	Live actions
C1 Factors affecting demand and provision of affordable housing	Amber (CII)	↔	Yes	1	C2 Major loss or release of personal data in contravention of	Amber (DIII)	↑	No	1

through the allocation and housing options processes <i>(Risk Owner: Head of Housing & Environmental Health)</i>						the Data Protection Act 2018 and GDPR <i>(Risk Owner: Head of Legal & Democratic)</i>				
C3 Failure to agree and implement up to date strategic Development Plan Documents <i>(Risk Owner: Head of Planning Policy & Economic Development)</i>	Amber (BIII)	↔	No	1		C17 Failure to effectively manage the impact of growth of population on TVBC <i>(Risk Owner: Head of Planning Policy & Economic Development)</i>	Amber (DII)	↔	No	6
C8 Failure of emergency planning procedures with partners <i>(Risk Owner: Head of Legal & Democratic)</i>	Amber (DII)	↓	Yes	0		C16 Failure to communicate appropriately and at the right time with our communities <i>(Risk Owner: Head of Planning Policy & Economic Development)</i>	Amber (DIII)	↔	No	1
C11 Continuity of Council services adversely affected by Local Government organisational and structural change. <i>(Risk Owner: Chief Executive)</i>	Amber (DIII)	↓	Yes	1		C22 Potential challenge in the strength (weight) of planning policies <i>(Risk Owner: Head of Planning Policy & Economic Development)</i>	Amber (DIII)	↓	Yes	1
C14 Breach of Equality Act 2010	Green (EIII)	↓	Yes	0		C25 Procurement adversely affected	Amber (CIII)	↔	Yes	0



by staff or Members <i>(Risk Owner: Chief Executive)</i>					by the impacts of supply chain issues/UK trade agreements and pricing <i>(Risk Owner: Head of Finance & Revenues)</i>				
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Test Valley Borough Council Risk Management Strategy

Reviewed August 2022

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1 - Context

1.1 What is Risk Management?

Risk is something that could happen that might have an impact on the achievement of the Council's objectives.

The purpose of risk management is to manage the barriers to achieving these objectives.

Risk Management can be defined as a discipline which promotes innovation in support of strategic objectives and service delivery; opening the door to the possibility of taking risks to achieve positive outcomes. Risk management is therefore a strategic tool and is an essential part of effective and efficient management and planning.

The Council has a clear vision statement "to be an organisation of excellence committed to improving the quality of life of all the people of Test Valley". In order to achieve this, the Council has established a Corporate Plan. The Plan outlines the Council's priorities for Test Valley over four years. It sets out our direction and provides a co-ordinated focus for all our activities and services for the years 2019 to 2023. The plan has been developed by reviewing the priorities outlined in the previous corporate plans and through customer consultation. It takes into account the views of local people, statistical data about the Borough and the experience of democratically elected councillors. In order to ensure that effective and efficient management and planning takes place, the Council recognises the need to fully embed robust risk management arrangements.

Risk management is a tool for ensuring that the Council makes the most of its opportunities as well as managing potential threats. Clear understanding of the risks around opportunities enables the Council to take innovative decisions with assurance.

1.2 Corporate and Service Risks

Corporate risks are those which cannot be attributed to specific services. They include corporate governance issues, members, overall finance matters, reputation and public confidence levels. The management of corporate risks will look at the corporate control measures in place to guard against these risks happening.

Service risks will tend to be more operational and will relate specifically to the respective service objectives. Actions to prevent or control these risks are likely to be managed at a service level.

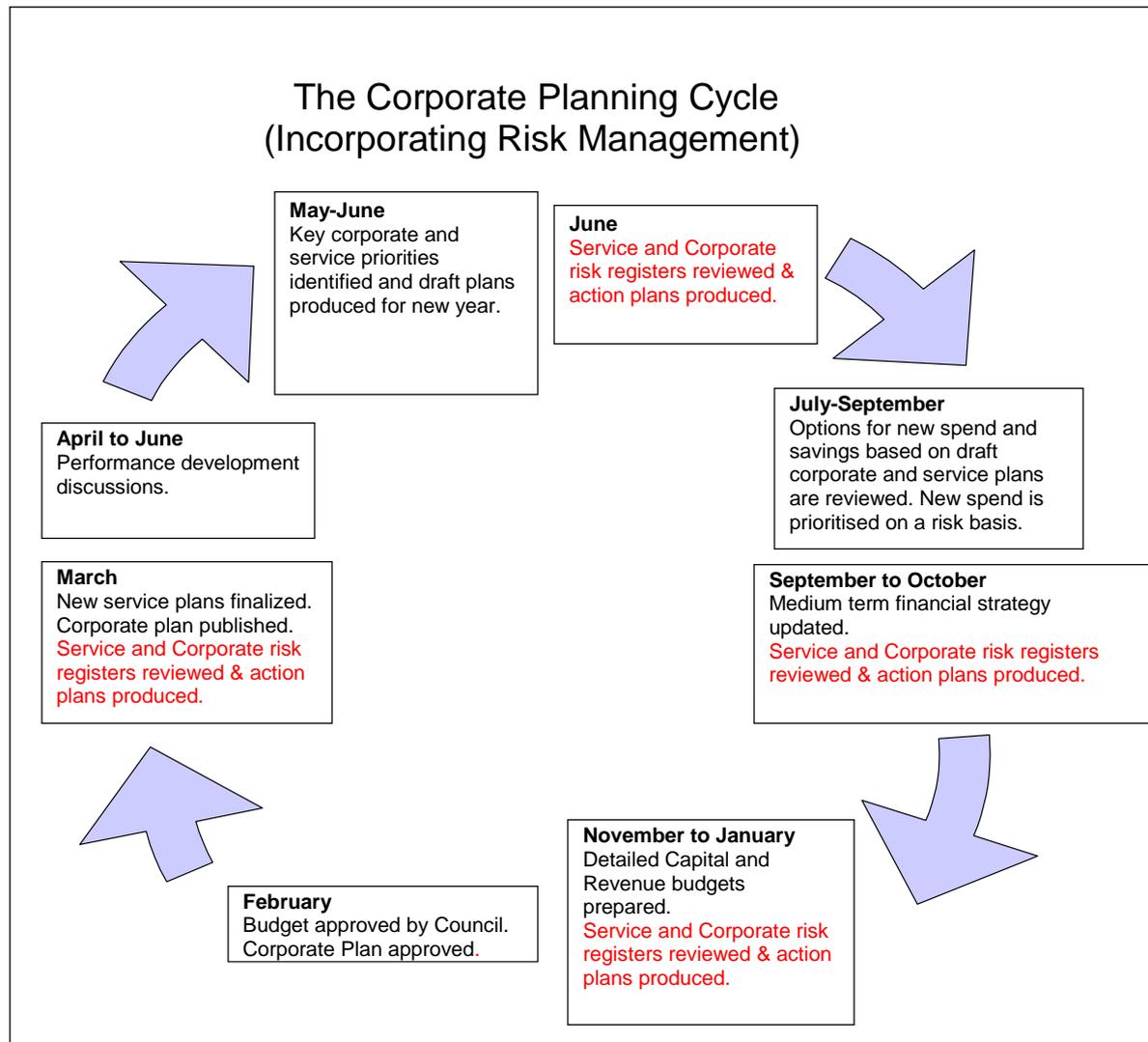
Corporate and service risks are not mutually exclusive and a service risk may have the potential to impact on the whole of the Council and likewise a corporate risk may relate to, or require management from, one particular service.

2 – Strategic Approach to Risk Management

2.1 Risk Management and the Corporate Planning Cycle

The Council recognises the obvious link between corporate planning and risk management. The following is an outline of the corporate planning timetable.

Figure 1: Corporate Planning Cycle



In February, the budget is approved. In March, service plans are finalised and service risk registers are updated as part of this process. Following this, the corporate risk register is reviewed and updated to reflect the new priorities and any emerging risks.

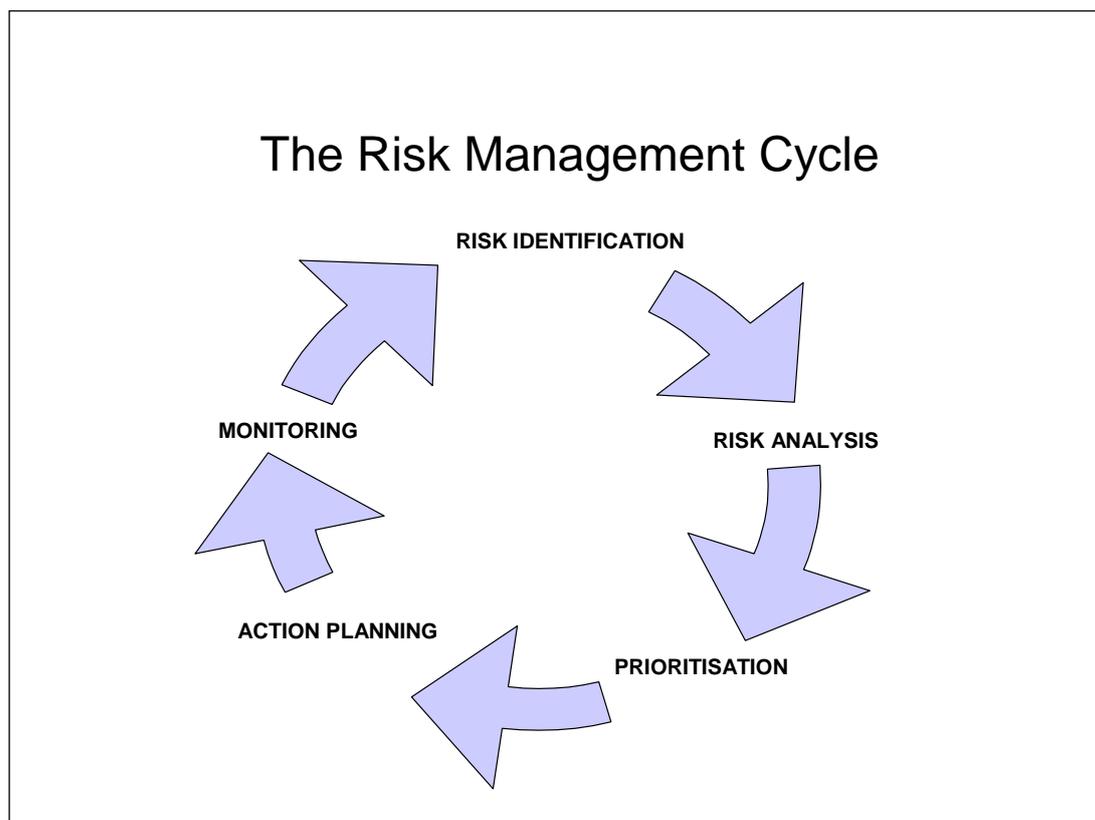
During July to September options for new spend and savings are reviewed and forecasts updated. All options, opportunities and projects included in these forecasts are prioritised by the Management Team during an in depth scrutiny process which considers the risks to the Council.

3 – Implementation of Risk Management

3.1 The Risk Management Process

Implementing the strategy involves identifying, analysing, prioritising, managing and monitoring risks as shown in figure 2.

Figure 2: The Risk Management Cycle



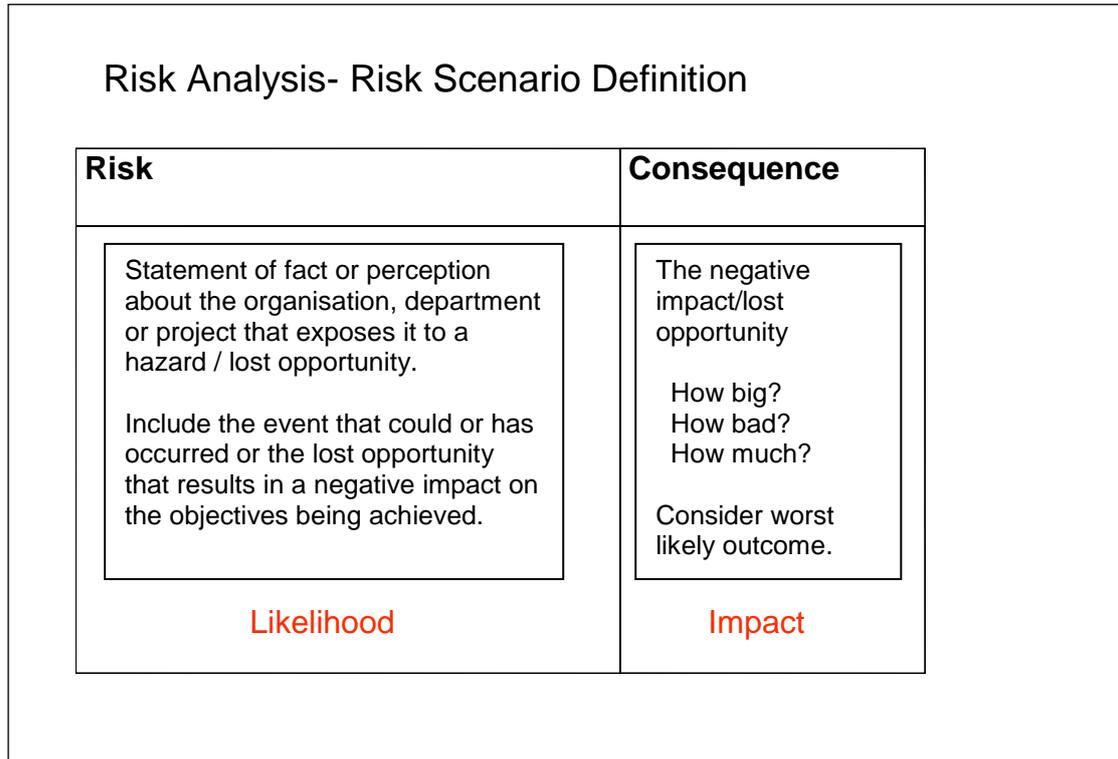
Stage 1 – Risk Identification

Stage 1 is to identify the 'key' risks that could affect the achievement of business objectives. Appendix 2 can be used as a prompt to ensure that consideration is given to the broad spectrum of potential risk areas. The focus is on identifying 'key' or 'significant' business risks and where possible risks are related back to the service or organisation's key business objectives.

Stage 2 – Risk Analysis

The information that is gathered is analysed into risk scenarios to ensure clear understanding of the root cause and consequences. There are 2 parts to a risk scenario as illustrated in Figure 3.

Figure 3: Structure of a Risk Scenario



The risk and consequences are put into context by considering the factors which influence or have a bearing on the likelihood or impact. Often these are external factors such as changes to legislation, government policy or the UK economy.

Existing controls for each risk are listed as they inform the risk prioritisation stage. As part of the action planning stage, the adequacy of these existing controls is looked at before considering further action.

Stage 3 – Risk Prioritisation (Risk Score)

Risks are assessed and scored using a 6x4 matrix, according to the potential likelihood of the risk occurring (within a specified timescale) and its impact if it does.

The risk score also assigns a simple traffic light system which further indicates the priority of the risk and its importance;

- Red risks are high priority and must be addressed immediately then reviewed at least 3 monthly
- Amber risks are medium priority and must be addressed as soon as possible, then reviewed at least 3 monthly
- Green risks are those which are judged to be adequately controlled currently but must still be reviewed at least 3 monthly

By mapping the scores for all Corporate or Service risks onto the risk matrix this provides the risk profile for the Council as a whole or for a particular Service area.

Figure 4: Risk Matrix

Risk Profile

Likelihood

A. Very High				
B. High				
C. Significant				
D. Low				
E. Very Low				
F. Almost impossible				
	IV Negligible	III Significant	II Critical	I Catastrophic

Impact

Stage 4 – Action Planning

For each risk, an assessment is made as to whether to control, accept, transfer or terminate the risk.

- **Control** - It is usually possible to mitigate the risk by ‘managing down’ the likelihood, the impact, or both. Any control measures must reflect the potential frequency, severity and financial consequences of the risk event.
- **Accept** - Some risks may have to be accepted as they form part of, or are inherent in, the activity. In addition there are some risks over which we can have no control and some for which any management actions would be prohibitive in terms of resource. The important point is that these risks are identified, clearly understood and acknowledged.

- **Transfer** – Some risks can be transferred to another body or organisation i.e. insurance, contractual arrangements, outsourcing, partnerships etc. It is however acknowledged that some risks e.g. reputation can never be transferred.
- **Terminate** – We may be able to eliminate a risk by ending all or part of a particular service or project.

Stage 5 – Monitoring Risk Management

The Corporate Risk Register is reviewed on a quarterly basis by senior management.

The Management Team is responsible for ensuring that the key risks on the corporate risk register are managed and the progress with the risk controls monitored at appropriate intervals. A full review of the corporate risk register is carried out annually as part of the corporate planning cycle.

Heads of Service are responsible for ensuring that the key risks in their service risk registers are managed and the progress with the risk controls monitored at appropriate intervals. A full review of each service risk register is carried out quarterly as part of the service planning cycle and Service Performance Boards.

The Audit Committee receives a 6 monthly update on the Corporate Risk Register and the continuing development and embedding of risk management within the Council. Their role is to review the corporate risk register and associated actions.

The Risk Management Strategy and process are also reviewed and updated annually and any changes are approved by the Management Team and Audit Committee.

3.2 Roles and Responsibilities

Chief Executive and Management Team

The Chief Executive and the Management Team are pivotal in the promotion, demonstration and embedding of risk management within the Council. Their key tasks are:

- recommending to the Audit Committee the Risk Management Strategy and revisions thereof;
- supporting and promoting risk management throughout the Council;
- actively identifying, assessing, managing and monitoring corporate risks;
- the Head of Finance & Revenues takes lead responsibility for championing and embedding risk management within the Council.

Audit Committee

The Audit Committee takes responsibility for considering, monitoring and scrutinising the corporate risk management process, as stated in their terms of reference. Their key tasks are:

- challenging and reviewing the effectiveness of the corporate risk management process including the corporate risk register;
- seek assurances that action is being taken to manage key corporate risks;

Members

Members have a responsibility to understand the corporate risks that the Council faces, and are made aware of how these risks are being managed through the annual corporate and service planning process. Members' key tasks are:

- approving the risk management strategy and revisions thereof;
- monitoring the Council's risk management and internal control arrangements;
- reviewing and challenging the effectiveness of the risk management and internal control framework ;
- the Finance & Resources Portfolio Holder takes lead responsibility for championing and embedding risk management within the Council;
- using the 'Risk Management' section of committee reports and supporting documentation to consider the risks associated with the decisions they are required to undertake.

Heads of Service

Each Head of Service is responsible for the risk management process within their service. Their key tasks are:

- leading the regular identification, assessment and management of risks to service objectives ;
- incorporating the risk management process into the service planning process;
- encouraging staff to be open and honest in identifying risks or missed opportunities;
- ensuring that the risk management process is part of all major projects and change management initiatives;

- ensuring that all reports written for the Cabinet, Audit Committee or General Purposes Committee include a completed risk management questionnaire which assesses the options presented for a decision.

Council Officers

- To consider risk as part of everyday activities and provide input to the risk management process as appropriate.

Internal Audit

- Support the embedding of the risk management process by facilitating the regular review of risk registers and reporting to Management Team and Members.
- Work with the Policy Team to develop and integrate risk management into the Council's Performance Management Framework.
- Provide independent assurance on the adequacy of the Council's risk and control procedures;
- Use the corporate and service risk registers to inform the internal audit timetable and plan and as appropriate uses the outcomes of audit reviews to inform the risk management process;
- Provide professional advice on cost effective ways of identifying and managing risk, based on their view of the whole of the Council's services and resources.

3.3 Risk Management in the Decision Making Process

The Council has a committee report template for all reports to the Cabinet and General Purposes Committee which is currently under review. The template includes a risk management flow diagram which ensures that risks are considered, assessed and presented consistently to Members to inform the decision making process. The questionnaire acts as a guide to Officers and ensures that the Council's Risk Management approach is followed.

3.4 Risk Management in Partnerships

Depending on the partnership type, some form of agreed plan for managing, monitoring and reporting risk should be agreed on from the start between the Council and the partner organisation.

It is important that the partnership follows one risk management approach and methodology for assessing risk, also that one comprehensive risk register is operated i.e. that contains a number of objectives and their risks.

3.5 Risk Management in Projects

The Council's project management methodology is based on PRINCE2. All major projects are managed using this methodology and as such have been risk assessed from the outset and have supporting risk management documentation.

Risks to projects are managed and monitored by the Project Board and Project Manager.

3.6 Reporting and Recording Arrangements

Risks arise from all levels within the Council. Key risks at a project or operational level can impact on the Council's corporate objectives and are escalated up to the Management Team for consideration and possible inclusion on the corporate risk register as appropriate.

All red risks from service risk registers are collated and considered by the Management Team for potential impact on the Council's corporate objectives. All red risks from projects should be considered by the individual project board and escalated where appropriate to the Management Team for consideration.

Corporate and service risks are recorded in the Council's Performance Management System. Project based risks and risks to be reported to committee are recorded using the Council's standard risk register template which is shown in Appendix 2.

Appendix 1 – Categories of Risk

Risk	Definition	Examples
Political	Associated with the failure to deliver either local or central government policy or relating to the local political environment	Political make-up, political leadership, policy changes
Economic	Relating to the external, national or local economic position	Cost of living, employment, inward investment
Social	Relating to the effects of changes in demographic, residential or socio-economic trends	Ageing population, health stats, housing needs, deprivation
Technological	Associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands	Digital and cyber security, IT infrastructure, staff/client needs
Legislative/ Regulatory	Associated with current or potential changes in national law	Environment Act and changing requirements.
Environmental	Relating to the environmental situation of the Council or the fulfilment of its environmental duties.	Land use, recycling, pollution
Managerial/ Professional	Associated with the way the Council manages itself - corporate direction, resource capacity, staff issues	Recruitment and retention, skills, leadership, culture, objective setting
Financial	Associated with financial planning and internal controls	Budget overspends, level of reserves, external funding
Legal	Related to possible breaches of legislation	Legal challenge
Physical	Related to fire, security, accident prevention and health and safety	Offices in poor state of repair, use of eqpt
Partnership/ Contractual	Associated with contractual and partnership arrangements	Contractor fails to deliver service, partnership fails to deliver objectives
Competitive	Associated with performance management or accreditations	Failure to meet PI's and other accreditation standards
Customer/ Citizen	Associated with meeting the current and changing needs and expectations of customers and citizens	Managing expectations, extent of consultation

Appendix 2 – Risk Register Template

Risk No	Type of Risk	Risk Owner	Risk (Description)	Factors	Consequences	Existing Risk Controls	Risk Score	Further Action (Y/N)	Required Action	Action Target Date	Target Risk Score
1.	(example) Financial	Head of Service	Reduction in Government funding for the provision of particular service.	Political change. EU referendum. Interest rates.	Unable to continue to provide the same standard of Service. Budget overspends occur.	Budgetary control processes in place.	CIII	Y	Review how service is provided. Seek alternative sources of income.	xx/xx/xx	CIII
2.	(example) Health & Safety	Head of Service	Breach of Health & Safety Act.	Lack of awareness.	Potential Costs awarded against the Council.	Staff training. Policy in place. Risk Assessments undertaken.	EIII	Y	Implement rolling training and induction programme.	xx/xx/xx	EIII
3.	(example) Managerial/ Professional	Head of Service	The performance of a service deteriorates	Capacity pressure points. Reduced productivity.	Customer expectations are not met. Increase in complaints. Reputational damage.	Management review and monitoring of performance indicators.	CII	Y	Review reasons for fall in performance and implement mitigating action.	xx/xx/xx	EIII
4.	(example) Partnership/ Contractual	Contracting Officer	Failure to achieve value for money or poorly managed contract.	Lack of understanding of Procurement regulations.	Legal challenge. Reputational damage. Poor vfm.	Procurement Officer advice. Contract Standing Orders.	DIII	Y	Training programme when standing orders revised. Project management approach to be adopted.	xx/xx/xx	DIII
5.	(example) Legislative	Head of Service	Legislation impacts policy affecting provision of Service.	Demographic change. Reduction in government funding.	Inability to deliver Corporate Plan Objective/s.	Monitoring arrangements and Service Planning.	BIII	Y	Develop existing service provision. Revise policies.	xx/xx/xx	BIV