

## Notice of Meeting

# Audit Committee

**Date:** Monday 19 June 2023

**Time:** 5.30 pm

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

**For further information or enquiries please contact:**

Sally Prior - 01264 368000  
sprior@testvalley.gov.uk

**Legal and Democratic Service**

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

[www.testvalley.gov.uk](http://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 S Hasselmann (Vice-Chairman)

Anna

Councillor R Hughes

Andover Harroway

Councillor I Jeffrey

Mid Test

Councillor R Kohli

Romsey Cupernham

Councillor M Leech

Andover Millway

## **Audit Committee**

Monday 19 June 2023

### **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 27 March 2023**
- 6 External Audit Update**  
  
To receive a verbal update from the Council's External Auditor, Ernst & Young  
(Kevin Suter and Kelly Gates)
- 7 Internal Audit Annual Report 2022/23 and Progress Report 2023/24 to 31 May 2023** **4 - 29**  
  
To consider the Internal Audit Annual Report for 2022/23 and Progress Report 2023/24 to 31 May 2023
- 8 Corporate Risk Register - Update on approach** **30 - 36**  
  
To provide an update on the key risks contained in the Council's Corporate Risk Register.
- 9 Accounting Policies 2022/23** **37 - 51**  
  
To present the Accounting Policies for the Statement of Accounts 2022/23 for approval.

## **ITEM 7 Internal Audit Annual Report 2022/2023 and Progress Report 2023/24 to 31/05/23**

Report of the Internal Audit Manager

### **Recommended:**

- 1. That the Internal Audit Annual Report 2022/23 (shown in Annex 1 to the report), which provides the assurance opinion as at 31 March 2023 on the system of internal control and the overall conclusion on the effectiveness of Internal Audit be endorsed.**
- 2. That the Internal Audit Progress report to 31 May 2023 (shown in Annex 2 to the report) be noted.**

### **SUMMARY:**

The annexed reports provide:

- An opinion on the overall adequacy and effectiveness of the Council's control environment and a summary of the audit work from which the opinion is derived for the financial year ending 31 March 2023.
- Internal Audit coverage, findings and performance for audit work undertaken in 2023/24 to 31 May 2023 and gives an assurance opinion on the adequacy and effectiveness of the Council's internal control framework for those areas reviewed.

## **1 Introduction**

- 1.1 The Council is required to produce an annual report and opinion under the Public Sector Internal Audit Standards (PSIAS). This forms an integral part of the formulation of the Council's Annual Governance Statement, as required under the Accounts and Audit Regulations 2015 and the CIPFA 'Framework for Delivering Good Governance in Local Government'. This assessment is carried out by the Internal Audit Manager.

## **2 Opinion on the Overall Adequacy and Effectiveness of the Council's Internal Control Environment**

- 2.1 The formulation of the opinion is based on audit work carried out during 2022/23 and undertaken in accordance with the Annual Audit Plan, Audit Charter and Strategy. Based on the audit findings and conclusions and review of other internal governance arrangements, the Internal Audit Manager is able to provide a **Substantial level of assurance** in respect of the Council's risk management, control and governance arrangements.

2.2 The Internal Audit function generally conforms to the International standards for the Professional Practice of Internal Auditing and specifically the Public Sector Internal Audit Standards UK (PSIAS). A self-assessment of the internal audit function's conformance with these standards was carried out in March 2023. The Public Sector Internal Audit Standards are a mandatory requirement, the objectives of which are to:

- Define the nature of internal auditing within the UK public sector,
- Set basic principles for carrying out internal audit in the UK public sector,
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

2.3 No areas of "partial" assurance were highlighted. There are however the following areas which are under development to improve the efficiency and effectiveness of the team going forwards. These areas will continue to be progressed during 2023-24:

- Continuing, where appropriate, to develop the use of CAATS (Computer Assisted Audit Techniques), and other methodologies in testing.
- Developing and embedding fraud awareness processes.

2.4 There is evidence that the work the Internal Audit function has delivered is effective; especially around risk and performance. It contributes to and has influence in the authority on these areas. It is a highly respected service that is engaged with the organisation and which provides on-going support in key areas, as well as effective assurance on controls.

The assurance opinions relating to the individual pieces of audit work undertaken during the year (where an opinion has been reported to the Audit Committee) are summarised in the Internal Audit Annual Report (enclosed in Annex 1).

### **3 Independence and Objectivity**

3.1 The Internal Audit Team's independence and objectivity has been maintained in accordance with the Public Sector Internal Audit Standards. The exception to this has been the Internal Audit Manager's role in facilitating the Council's Risk Management. In order to provide a compensating control, Risk Management Audits are undertaken by the Senior Auditor and the outcomes reported to the Head of Finance & Revenues.

### **4 Internal Audit Performance 2022/23:**

4.1 The Internal Audit Annual Report (enclosed in Annex 1) summarises the work carried out by Internal Audit against the Audit Plan during the period 1 April 2022 up to and including 31 March 2023.

4.2 All actions arising from audit reviews have been accepted by management and programmed for implementation.

4.3 Overall the performance of the team has been good and high standards have continued to be achieved.

## **5 2023/24 Audit Plan - Progress and performance report to 31/05/23**

5.1 The Annual Audit Plan for 2023/24 was approved by the Audit Panel on 27 March 2023. Progress against the plan to 31 May 2023 is shown in Annex 2 of this report.

## **6 Corporate Objectives and Priorities**

6.1 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.

## **7 Consultations/Communications**

7.1 Management have been consulted and have agreed the scope of the audit reviews and the actions arising.

7.2 The Internal Audit Plan for 2023/24 involved full consultation with senior management and the Audit Committee.

## **8 Options**

8.1 In accordance with best professional practice, currently the Public Sector Internal Audit Standards, each year a plan is produced and internal audit resources allocated to the areas of the Council's activity which need to be reviewed during the year.

8.2 The Council has limited options in this matter as without this the Council is at risk of providing inadequate audit coverage on high-risk areas and no assurance on the control environment.

## **9 Risk Management**

9.1 The Annual Audit Plan 2023/24 has been based on the Council's risk registers and Internal Audit contributes towards the overall corporate governance framework of assurance.

## **10 Resource Implications**

10.1 The Audit Plan for 2022/23 was based on 3.0 full time equivalent auditors employed by Test Valley Borough Council.

## 11 Equality Issues

- 11.1 This report is for information purposes, so the Council's EQIA process does not need to be applied.

## 12 Conclusion

- 12.1 This report outlines the work undertaken by Internal Audit from 1 April 2022 to 31 March 2023 and the overall performance in delivery of the 2022/23 Audit Plan. It also provides progress on the 2023/24 Audit Plan to 31 May 2023.

|  |                                      |       |              |
|--|--------------------------------------|-------|--------------|
| <u>Background Papers (Local Government Act 1972 Section 100D)</u>  |                                      |       |              |
| None   |                                      |       |              |
| <u>Confidentiality</u>   |                                      |       |              |
| It is considered that this report with the exception of Annex 3 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 (Internal Audit Manager) | Ext:  | 8234         |
| File Ref:  | N/A                                  |       |              |
| Report to:   | Audit Committee                      | Date: | 19 June 2023 |



## **Annex 1**

### **Test Valley Borough Council Annual Audit Report 2022/23**

**Jan Balfour – Internal Audit Manager**



## **Contents**

1. Background
2. Annual Opinion for 2022/23
3. Risk Exceptions - Actions
4. Contingencies and Ongoing Activities
5. Quality Assurance
6. Public Sector Internal Audit Standards (PSIAS)

# 1. Background

## Public Sector Internal Audit Standards

- 1.1 On 1<sup>st</sup> April 2013 the *Public Sector Internal Audit Standards (PSIAS, the Standards)* were formally adopted in respect of local government across the United Kingdom. The *PSIAS* apply to all internal audit providers, whether in-house, shared services or outsourced. The *PSIAS* were revised from 1<sup>st</sup> April 2016, to incorporate the *Mission of Internal Audit* and *Core Principles for the Professional Practice of internal Auditing*.
- 1.2 The *Accounts and Audit Regulations 2015 Section 5*, define the requirement for an internal audit function within local government, stating that:
- A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance*
- 1.3 The responsibility for maintaining an adequate and effective system of internal audit within Test Valley Borough Council lies with the Head of Finance & Revenues (Section 151 Officer).
- 1.4 The Internal Audit Manager is responsible for effectively managing the internal audit activity, in accordance with the definition of internal auditing, the *Code of Ethics* and the *Standards*.
- 1.5 In accordance with the *PSIAS* the definition of internal auditing is:
- Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*
- 1.6 In addition the Internal Audit Manager will provide an Annual Internal Audit Opinion, based on an objective assessment of the Authority's framework of governance, risk management and control.

**1.7** The Annual Internal Audit Opinion must incorporate:

- The Opinion;
- A summary of the work that supports the Opinion; and
- A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.

**1.8** An annual self-assessment is carried out, as part of PSIAS. The assessment for 2022/23 confirmed that Test Valley Borough Council's, Internal Audit Service is compliant with requirements.

### **Statement of Organisational Independence**

**1.9** The Internal Audit Team has no operational responsibilities for any financial systems, including system development and installation. The Internal Audit Manager does however facilitate the Council's risk management arrangements and the team provides advice on control implementation and risk mitigation for major projects.

**1.10** The Internal Audit Manager is free from interference, although has due regard for the Authority's key objectives and risks and consults with Members and Officers charged with governance, when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be and is no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

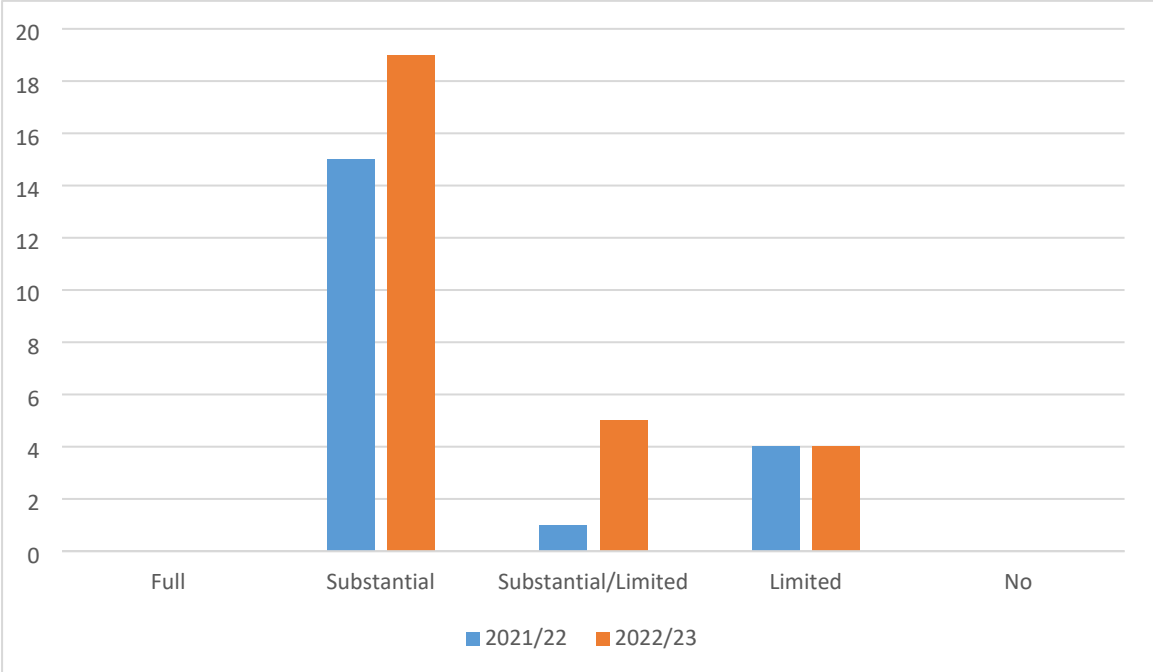
**1.11** The Internal Audit Section has free and unfettered access to the Section 151 Officer, Chief Executive, Monitoring Officer, Leader of the Council and the Chair of the Audit Committee.

## 2. Annual Opinion for 2022/23

- 2.1** Four audit opinion levels are in place and these are: no assurance, limited assurance, substantial assurance and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be substantial or full assurance. Substantial Assurance is provided for this year.

|              |                   |                       |                |
|--------------|-------------------|-----------------------|----------------|
| No Assurance | Limited Assurance | Substantial Assurance | Full Assurance |
|--------------|-------------------|-----------------------|----------------|

- 2.2** During 2022-23 Internal Audit undertook 28 full audits and 2 follow up reviews. The results, as displayed in the table below show that, for those audits given an opinion there were no audited areas given a 'No Assurance' opinion which was the same as last year. There were 9 audited areas given a 'Limited' or split "Limited/Substantial opinion which is an increase on last year and 19 audits received a "Substantial" assurance opinion. As a whole 'Substantial Assurance' has been attributed indicating that the governance framework is effective.
- 2.3** Any significant corporate weaknesses and agreed actions are considered for inclusion in the Annual Governance Statement and reflected in its action plan. Where the impact of Internal Audit work may affect that year's work for External Audit i.e. where they consider there are weaknesses in control that could materially affect the accounts, they may need to carry out further work to gain the necessary audit assurance required for a true and fair view of the financial position and compliance with professional codes of practice.



### 3. Risk Exceptions - Actions

- 3.1** In terms of the number of actions which have reached or passed their original target date for implementation the position as at 31/03/23 is shown in the table below. There is one “High” risk exception to report which relates to the provision of procurement training. The overall position for 2022/23 shows that 32 (70%) of actions raised during the year have been closed with 14 (30%) remaining open, pending and or are in progress. An analysis of the total live actions for 2022/23 and previous years shows 198 (78%) having been closed and 55 (22%) remaining open. This position needs to be monitored to continue to manage risk exposure effectively and retain the overall assurance opinion. Service Performance Boards will be updated on a quarterly basis with all open risk exposures.
- 3.2** During 2022/23 Internal Audit carried out 2 six monthly follow-up reviews on all open risk exceptions. While progress implementing actions is maintained there are areas where actions are not fully implemented at the point of follow-up. Consequently, to ensure all actions are fully implemented, Internal Audit will continue the approach established in prior years, with 2 follow-ups reviews.



## 4. Contingencies and Ongoing Activities

**4.1** The Audit Plan for 2022/23 included time spent on ongoing activities including advice and assurance on internal control processes and major projects and contingency provision for special investigations, specific S151 requests and other fraud awareness and reactive work.

### 4.2 Special Investigations

Two special investigations were undertaken during 2022/23. These related to:

- Procurement of commemorative statues resulting in a confidential report to the Audit Committee
- Procurement of VMWare Server replacement which led to lessons learned but no formal report.

There have been no incidents of fraud and/or corruption to report for 2022/23

### 4.3 S151 Requests

Two pieces of work were carried out during 2022/23 under the provision for requests from the S151 Officer. These included post assurance work on the £150 energy payments scheme and use of Purchasing Cards. Reports were produced and summaries reported to the Audit Committee.

### 4.4 Fraud Awareness and NFI

The Council does not have a dedicated Counter Fraud Team. Fraud checks are however incorporated into the individual audit reviews. The Council's Anti-Fraud and Corruption Policy was reviewed in 2022/23 and presented to the Audit Committee. Anti-fraud and Anti-bribery awareness training and promotion was commenced during 2022/23 and is continuing in 2023/24.

Internal Audit facilitate the management and administration of the Council's participation in the National Fraud Initiative (NFI) which is a mandatory scheme run by the Cabinet Office in which multiple data sets are uploaded and analysed. The results are then presented back to the Council for investigation. NFI does not run-in financial years but spans a period of 18 months. The data matches for the latest 2022/23 exercise were released in February 2023.

#### 4.5 Advice and Assurance

Internal Audit gave 11 items of advice across varying council services on risk and control throughout 2022/23.

#### 4.6 Project Assurance

Internal Audit provided a project assurance role on 12 projects during 2022/23. Those where more than 1 day was spent in total included:

- Andover and Romsey Town Centre Regeneration
- Financial Management System
- Office 365 migration
- New and agile ways of working
- Telephony System

### 5. Quality Assurance

**5.1** As part of the *Public Sector Internal Audit Standards* the Internal Audit Manager is required to maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. This QAIP must include both internal and external assessments.

In addition to this, quality and improvement requirements are assessed by means of:

- Sign off by the Internal Audit Manager of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- Weekly Progress meetings with the Audit Team.
- Monthly 1-2-1s with all members of staff within the Audit Team.
- Annual performance reviews of all staff, including the identification and provision of training. The majority of training needs are provided by a combination of external professional studies, supported by in-house provision and mentoring.



- All staff are currently undertaking professional training. The Internal Audit Manager is professionally qualified (CMIIA) and is required to maintain Continuous Professional Development.
- All staff complete an annual declaration of interests including a nil return, to avoid any impingement on independence or conflict of interest.
- Feedback has been received during 2022/23 from Senior Management which supported the quality assurance assessment reflecting that the service provided complies with PSIAS criteria.

## 6. Public Sector Internal Audit Standards

- 6.1** Under the *Public Sector Internal Audit Standards (PSIAS, the Standards)* *Standard 1310* requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the *PSIAS*) must be undertaken. *Standard 1311* allows for periodic self-assessments, which have been carried out each year and the results reported to the Audit Committee annually alongside the annual audit opinion.
- 6.2** *Standard 1312* requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor from outside the organisation. An independent assessor means someone not having an actual or perceived conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs. An external assessment was last undertaken in March 2019 with the next due in March 2024.



|  |
|--|
| <b>Internal Audit Progress Report as at 31<sup>st</sup> May 2023</b> |
| <b>Jan Balfour – Internal Audit Manager</b>                          |

**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).

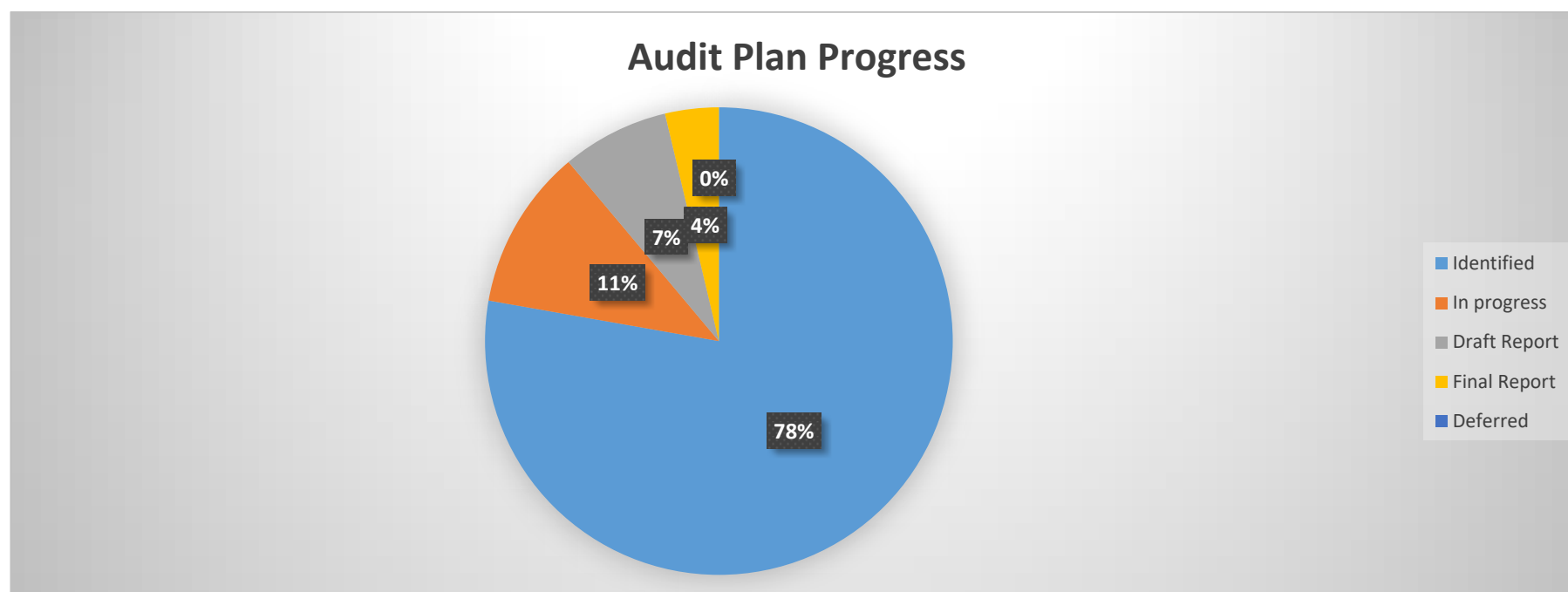
Internal Auditing is an independent, objective and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control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

This report includes the status against the 2023/24 internal audit plan.

## **2.0 AUDIT PLAN 2023/24 PROGRESS AS AT 31<sup>st</sup> MAY 2023**

There are 25 full audits and 2 follow up reviews totalling 27 reviews in the 2023/24 Audit Plan. These include the “core” financial audits which are compulsory and take place on an annual basis, cross cutting/corporate audits, and service specific reviews. Also included are 2 reserve audits to be undertaken if capacity allows.

To date 1 (4%) has been completed, 2 (7%) are at draft report stage and 3 (11%) are in progress.



### **3.0 ONGOING ACTIVITIES**

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

3 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 and promote Fraud Awareness and carry out a risk assessment of the Council's Anti-Fraud and Corruption processes and procedures.

Project Assurance role on 7 projects.

### **4.0 CONTINGENCIES**

0 special investigations have been undertaken to date.

1 piece of work, a Grants probity review, is currently in progress and being carried out under the provision for requests from the S151 Officer.

### **5.0 AUDIT PLAN CHANGES**

No changes are proposed to the Audit Plan since issue of the last progress report.

### **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<br>or<br>Limited* | Limited                       | No Assurance                   | No Assurance                   |
| B High              | Substantial                   | Limited*                      | Limited<br>Or<br>No Assurance* | No Assurance                   |
| C Significant       | Substantial                   | Substantial<br>or<br>Limited* | Limited                        | Limited<br>Or<br>No Assurance* |
| D Low               | Substantial<br>or<br>Full*    | Substantial                   | Substantial<br>or<br>Limited*  | Limited                        |
| E Very Low          | Full                          | Substantial<br>or<br>Full*    | Substantial**                  | Limited                        |
| F Almost impossible | Full                          | Full                          | Substantial                    | Substantial<br>or<br>Limited*  |
|                     | IV<br>Negligible              | III<br>Significant            | II<br>Critical                 | I<br>Catastrophic              |

**Impact**

**7.0 CONTROL WEAKNESS – RISK RANKING**

|                        |                     |
|------------------------|---------------------|
| <b>Priority Level:</b> | <b>Description:</b> |
|------------------------|---------------------|

|        |  |
|--------|--|
| 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



The following summaries relate to Audits from the 2022/23 Audit Plan not previously reported to the Audit Committee. The 1 completed audit reported in Section 1 above for 2023/24 relates to Follow Ups. This work is summarised in Annex 2 (the Internal Audit Annual Report).

1.

| Control Weaknesses Identified: |        |     |
|--------------------------------|--------|-----|
| High                           | Medium | Low |
| 0                              | 1      | 0   |

ACCOUNTANCY  
2022/23

| Overall Assurance Opinion:            |
|---------------------------------------|
| Substantial Assurance - overall       |
| Agreed actions have been implemented. |

| Scope:   | Control Weakness:  | Control improvement upon implementation:   |
|--|--|--|
| <ul style="list-style-type: none"><li>Dealing with customers</li><li>Payments</li><li>Overpayments and Recovery</li><li>Refunds</li><li>Write-offs</li></ul> | <ul style="list-style-type: none"><li>There were transactions outstanding on the suspense account which covered a period back to 2013.</li></ul> | <ul style="list-style-type: none"><li>Unidentified amounts are promptly investigated and correctly allocated in the Councils accounts.</li></ul> |

2.

| Control Weaknesses Identified: |        |     |
|--------------------------------|--------|-----|
| High                           | Medium | Low |
| 0                              | 0      | 1   |

## PAYROLL 2022/23

| Overall Assurance Opinion:                               |
|--|
| Substantial Assurance                                    |
| Agreed action is scheduled to be implemented by 30/06/23 |

| Scope:   | Control Weakness:  | Control improvement upon implementation:  |
|--|--|---|
| <ul style="list-style-type: none"> <li>Starters and leavers.</li> <li>Additional payments.</li> <li>Calculation of Annual Leave.</li> <li>Changes to standing data pay grade, increments etc.</li> <li>Payroll reconciliation.</li> <li>Deductions and payments to third parties.</li> <li>Payment of salaries and posting of data to accounting records.</li> <li>System access and backup</li> <li>Overpayments</li> </ul> | <ul style="list-style-type: none"> <li>There were variances showing on the control account reported in the 2021/22 audit, which have not been resolved.</li> </ul> | <ul style="list-style-type: none"> <li>Potential errors are picked up and resolved in a timely manner.</li> </ul> |
| 3.   |  |   |

| Control Weaknesses Identified: |        |     |
|--------------------------------|--------|-----|
| High                           | Medium | Low |
| 0                              | 1      | 1   |

## RECRUITMENT & RETENTION OF STAFF 2022/23

| Overall Assurance Opinion:                               |
|--|
| Substantial Assurance                                    |
| Agreed action is scheduled to be implemented by 31/12/23 |

| Scope:  | Control Weakness:  | Control improvement upon implementation:  |
|---|--|---|
| <ul style="list-style-type: none"> <li>Review of outcomes from the HR Manager's paper on recruitment and retention risk including their monitoring, prioritisation and management.</li> <li>A walkthrough of the recruitment Process / portal.</li> <li>A sample survey of employee's experience of recruitment via the portal to capture user feedback.</li> </ul> | <ul style="list-style-type: none"> <li>Application forms that contain personal data for unsuccessful applicants are held longer than the 7 months stated in the Privacy Notice statement.</li> <li>The Recruitment Policy, although fit for purpose, is due for review.</li> </ul> | <ul style="list-style-type: none"> <li>Personal data is held no longer than necessary minimising the potential risk of a data breach.</li> <li>The Council's recruitment policy is subject to regular review and update and remains fit for purpose.</li> </ul> |

4.

| Control Weaknesses Identified: |        |     |
|--------------------------------|--------|-----|
| High                           | Medium | Low |
| 0                              | 3      | 2   |

## INSURANCE 2022/23

| Overall Assurance Opinion:                               |
|--|
| Substantial Assurance                                    |
| Agreed action is scheduled to be implemented by 30/06/23 |

| Scope:  | Control Weakness:  | Control improvement upon implementation:   |
|---|--|--|
| <ul style="list-style-type: none"> <li>Emerging or increasing risks</li> <li>Sufficiency of insurance policies to cover the Council's liabilities and risks.</li> <li>Tendering of insurance and brokers contracts.</li> <li>Recording and management of claims.</li> <li>Monitoring of any emerging trends.</li> </ul> | <ul style="list-style-type: none"> <li>The claims spread sheet is not periodically filtered to review all claims that still have an "open" status.</li> <li>No information was available at the time of the audit to demonstrate which properties were included in the valuation for business interruption cover to confirm that the cover remains sufficient.</li> <li>The Insurance Strategy is in draft format and includes out of date references. There is also no senior management review or approval of the strategy.</li> <li>Correspondence is not consistently saved to claim files.</li> </ul> | <ul style="list-style-type: none"> <li>Financial pressure is minimised in the event of a major cyber incident impacting the continuity of Council services.</li> <li>All claims are reviewed and settled or closed.</li> <li>Business Interruption cover is sufficient in response to a major business continuity event.</li> <li>There is a formally approved strategy for the mitigation of risk via insurance.</li> <li>A full trail of the management of a claim is maintained.</li> </ul> |

## 9.0 CONTROL WEAKNESSES

Of the 4 2022/23 audits completed, where an opinion has been given 9 exceptions have been raised:

| Risk:  | No. of exceptions<br>(actions): |
|--------|---------------------------------|
| High   | 0                               |
| Medium | 5                               |
| Low    | 4                               |

## **ITEM 8                      Corporate Risk Register – Update on approach**

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

### **Recommended:**

**That the update on the Council's approach to the management of the Council's key risks, as shown in the draft Corporate Risk Register, be noted.**

#### **SUMMARY:**

This report provides the Audit Committee with an update on how the Council's corporate risks are being managed and a summary of the key risks contained in the Council's Corporate Risk Register attached as Annex 1 to this report.

### **1                      Introduction**

- 1.1      The purpose of risk management is to assess the potential barriers to achieving the Council's objectives. Maintaining an up-to-date risk register assists with management of risks and monitoring of the actions to mitigate them.

### **2                      Corporate Plan**

- 2.1      The Corporate Plan outlines the Council's priorities for Test Valley over four years setting the direction and providing a co-ordinated focus for all Council activities and services for the years 2023 to 2026. To ensure that effective and efficient management and planning takes place, management recognises the need to fully embed robust risk management arrangements.

### **3                      Risk Management Process**

- 3.1      Risk Identification - The key or significant risks that could affect the achievement of business objectives and the Corporate Plan priorities have been identified. This is an ongoing process which includes but is not limited to research of national risk profiles and forecasts, reviews of service risk registers, significant issues coming out of internal reviews and ongoing discussions with senior management.
- 3.2      Risk Analysis and Action Planning – This involves ensuring a clear understanding of the root cause and consequences of the risks identified by considering the factors which influence or have a bearing on their likelihood or impact. Often these are external factors such as changes to legislation, government policy or the UK economy. The existing controls in place to mitigate each risk and their adequacy are then considered and further action planned where necessary.

### Impact

## **5 Service Risks**

- 5.1 Service risks are more operational and 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. Heads of Service are responsible for ensuring that the key risks in their service risk registers are managed.

## **6 Corporate Objectives and Priorities**

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

## **7 Consultations/Communications**

- 7.1 The Corporate Risk Register is subject to regular review and updated by senior management on at least a quarterly basis.

## **8 Risk Management**

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

## **9 Resource Implications**

- 9.1 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.

## **10 Equality Issues**

- 10.1 No equality, diversity or inclusion issues arise as a result of this report, and such considerations will be taken into account within individual risks as necessary.

## **11 Conclusion**

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



- 11.2 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. Each risk has a designated officer as “Risk Owner” and they are responsible for ensuring that all agreed mitigation actions are completed.

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| <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: | N/A          |
| (Portfolio: Finance and Resources) Councillor M Flood  |                 |           |              |
| Officer:   | Jan Balfour     | Ext:      | 8234         |
| Report to:   | Audit Committee | Date:     | 19 June 2023 |

| Risk No | Category of Risk         | Risk (Description)   | Sub Risks  | Factors   | Potential Consequences   | Existing Mitigations/Risk Controls  | Additional mitigating action required   | Action due date | Responsible Officer           | Previous risk score | Current Risk Score | Current Risk Score (overall) | Direction of Travel | Action Target/ Review Date | Target Risk Score | Target Risk Score (overall) |
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| C1      | All                      | Insufficient capacity (staff) to deliver Council services (links to Economic/Financial Risk) | Inability to recruit and retain staff (to posts already have)  | Competition/limited supply of labour<br>Flexible/homeworking<br>Industrial action<br>Cost of living/deprivation impacts   | Quality of Council Services affected. Delay in service provision. Increase in complaints etc.<br>Budget strain from using temporary/agency staff.  | Organisational Development journey<br>Grow your own - actual or planned<br>Agile working/hybrid working<br>Review of pay policy allowances<br>Use of agency staff   | Succession planning. Forecasting capacity needs   |                 | SM                            |                     | CII                |                              |                     |                            | DII               |                             |
|         |                          |  | Inability to adapt Council service provision to accommodate changing customer needs and expectations   | Cultural changes arising from pandemic<br>Aging population<br>Migration<br>Demand for online services<br>Managing expectation<br>Periodic need for extra waste round        | Quality of life of borough residents affected.<br>Reputational damage<br>Resourcing pressures e.g. Waste collection.<br>Limitations on availability of affordable housing and being able to meet housing needs.                        | Effective Corporate Plan delivery including deliberative outcomes as evidence base<br>Effective Local Plan<br>S&I work on online service provision  | Deliberative democracy to understand resource allocation<br>How do Management define and measure capacity?<br>Forecasting future resource needs - fed from demand forecast<br>Review S106/commuted sum allocation   |                 | JM/CW<br>AF/KD/EH<br>CW/SF/PT |                     | DII                |                              |                     |                            | EII               |                             |
|         |                          |  | Inability to recruit and retain a sufficient level of appropriately skilled staff needed to deliver and expand on new responsibilities e.g. food waste | Limited supply of appropriately skilled staff. All Local Authorities in similar position therefore increased competition<br>Government support not forthcoming or uncertain | Non compliance with statutory responsibilities.<br>Potential health and safety impacts?  | Build up reserves in advance to meet need<br>Resource projects - staff and funding<br>See C4. Budget approvals being sought.<br>New burdens funding   | Full costing of staff/fuel etc. for rounds.<br>Depot costs (capacity for parking new vehicles)  |                 | JM+                           |                     | CII                | CII                          |                     |                            | DII               | DII                         |
| C2      | Managerial/ Professional | Failure of Internal Governance Arrangements  | Inability to sustain appropriate quality of leadership   | Experience and knowledge of staff in leadership positions.<br>Changes in ways of working and adapting to leading in a more agile environment                                | Deterioration in quality of service provision.<br>Regulatory/legislative breaches resulting in penalties/sanctions<br>Abuse of position/allegations re conduct and fraud<br>Outcomes and objectives of CAP projects not fully realised | Leadership Development Programme (Collaborate) is mitigation against poor leadership.<br>De-mystifying language for officers<br>Developing structural governance training for officers for nuts and bolts e.g. procurement.<br>New manager induction programme under development<br>Continuing good officer/member relations<br>Officer/Member Codes of Conduct   | De-mystifying language for officers<br>Developing structural governance training for officers for nuts and bolts e.g. procurement   |                 | AF<br>KD/CW/EH                |                     | DII                |                              |                     |                            | EII               |                             |
|         |                          |  | Governance failings not promptly recognised and identified   | Annual Governance Statement (assessment not embedded)<br>Setting an unsustainable budget.   | Governance failing at TVBC. Special measures imposed   | Regular Statutory Officers meetings with Governance action plan.<br>Governance and Risk Management forms part of Corporate Dashboard.<br>Exercises undertaken to learn from the experiences of other failing authorities  | More detailed plan to embed AGS development throughout the year<br>Political Awareness - development as appropriate for all levels<br>Refresher training for all staff on governance issues to minimise complacency<br>Improve understanding of policies and processes at officer level<br>Refresh of recent failures work. Consideration of the LA failures and factoring into the Council's action plans. |                 | Statutory Officers            |                     | DII                |                              |                     |                            | EII               |                             |
|         |                          |  | Failure to maintain an effective internal control environment  | Inexperienced Members<br>Internal control processes not robustly managed  | Failings in governance and internal control not recognised and effectively scrutinised.<br>Qualified opinion in Annual Governance Statement<br>Increase in fraud   | Internal Audit Team planned review of internal control processes<br>Training provided to Audit Committee Members<br>Clearly defined Terms of Reference for the Audit Committee<br>Compliance with IIA standards and annual assessment against these reported to Audit Committee.<br>Robust and reviewed Constitution including CSOs and Financial Procedure Rules | The Audit Committee to carry out its own review of its effectiveness?<br>Consideration of independent Member in accordance with CIPFA best practice.<br>Review of the Constitution and the subsets within these is ongoing  |                 | CW/KD                         |                     | DII                |                              |                     |                            | DII               |                             |

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| Risk No | Category of Risk | Risk (Description) | Sub Risks | Factors | Consequences | Existing Mitigations/Risk Controls | Additional mitigating action required | Action due date | Responsible Officer | Previous risk score | Current Risk Score | Direction of Travel | Action Target/ Review Date | Target Risk Score |
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| Risk No | Category of Risk         | Risk (Description)   | Sub Risks   | Factors  | Consequences   | Existing Mitigations/Risk Controls  | Additional mitigating action required  | Action due date | Responsible Officer | Previous risk score | Current Risk Score | Current Risk Score (overall) | Direction of Travel | Action Target/ Review Date | Target Risk Score | Target Risk Score (overall) |
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| C6      | Managerial/ Professional | Inability to deliver Services in event of a major incident or cyber attack               | Failure of Business Continuity Plans (BCP)<br><br>Disaster recovery - Failure of IT reciprocal arrangements | Power outages/restrictions   | Impacts on continuity of critical Council services.<br><br>Loss of data or personal information (reputational), litigation or sanctions from Information Commissioner's Office | Agile working has reduced the need for physical location for staff<br><br>Changes to way BCP managed to give more resource<br><br>Hosting journey to cloud (methods work)<br><br>Bolstering of skills through training of other officers                                    | Review/scope what is (or should be covered by BCP (Corporate review) - PROJECT<br><br>Weekend monitoring and response to cyber incidents<br><br>Testing of BCP arrangements for eventuality of systems being lost<br><br>Ensuring most data can be accessed remotely<br><br>Refresh of BCP and review of need for physical premises<br><br>Commitment to a clear (and managed) staff training programme (awareness for all)<br><br>Creation of new roles/rota (refresh)<br><br>Development of clear roadmap towards hosted systems |                 | JM                  |                     | DI                 |                              |                     |                            | DI                |                             |
|         |                          |  |   | Increased risk of cyber attacks<br><br>Involvement of 3rd parties/contractors hosting systems e.g. MHR<br><br>Personal data held in some systems |  |   |  |                 |                     |                     |                    |                              |                     |                            |                   |                             |
|         |                          |  | Failure to comply with duties under Civil Contingency Act   | Insufficient resources given to Emergency Plan<br><br>Maintaining a wide enough pool of sufficiently trained staff                               | Inadequate response to emergency incidents   | Emergency Response Plan in place.<br><br>Take part in local Resilience forum and exercises.<br><br>Improved resilience on single points of failure (resourcing)<br><br>Ensure staff are sufficiently trained<br><br>SLA with HCC covering Civil Contingency Act compliance. | To further bolster support for emergency planning officer/deputies   |                 | SM/JM               |                     | DII                | DI                           |                     |                            | DII               | DII                         |
| C7      |                          | Inability to deliver major projects and programmes within planned timescale/budget/scope | Inability to fulfil expectations of the regeneration programme  | Affordability<br><br>Expertise and capacity  | Reputational damage<br><br>Increased costs<br><br>Non delivery of project outcomes   | Regeneration programme risk workshop and on-going monitoring of regeneration-specific risk register.<br><br>Regeneration Board and governance structure   | Something to include in AMP/Capital planning (formal projects) -TOR<br><br>Structured review of resource implications before implementation<br><br>To take forward/plan actions re the outcomes from the regen risk workshop and produce risk register   |                 | GS                  |                     | CII                | CII                          |                     |                            | DII               | DII                         |

## ITEM 9

## Accounting Policies 2022/23

Report of the Head of Finance and Revenues (Portfolio: Finance and Resources)

### Recommended:

**That the Accounting Policies to the Statement of Accounts 2022/23, attached as an Annex to the report, be approved.**

#### SUMMARY:

- The Council is required to prepare an Annual Statement of Accounts in accordance with proper accounting practices.
- The Accounting Policies sets out the basis of the figures in the Statement of Accounts and discloses policies that are significant and relevant to the Council.

### 1 Introduction

- 1.1 The Council is required to produce and approve an Annual Statement of Accounts for each financial year (by the Accounts and Audit Regulations 2015) in accordance with proper accounting practices. These practices are set out in the Accounting Policies, which explain the basis of the figures in the Statement of Accounts and discloses policies that are significant and relevant to the Council.
- 1.2 The Accounting Policies are presented for the Audit Committee's consideration.

### 2 Accounting Policies

- 2.1 The Accounting Policies presented for 2022/23 are without change from those applied in 2021/22.
- 2.2 The policies are in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and the Service Reporting Code of Practice 2022/23 supported by the International Financial Reporting Standards and statutory guidance.

### 3 Options

- 3.1 The options are whether to approve the Accounting Policies or whether to make amendments to them before they are approved.

## 4 Options Appraisal

- 4.1 The Accounting Policies that are included in the annex to the report have been prepared in accordance with the guidance received from CIPFA and based on the knowledge and experience of the accounting team responsible for the preparation of the annual statement of accounts.
- 4.2 They are also consistent with the policies that have been used in previous years and always accepted as reasonable by the Council's external auditors.
- 4.3 Making changes to the Accounting Policies before they are approved may impact on the consistency of the figures shown in the accounts between financial years and move away from generally accepted accounting principles.
- 4.4 For these reasons, it is recommended that the Accounting Policies, shown in the annex to the report, be approved.

## 5 Risk Management

- 5.1 An evaluation of the risks associated with the matters in this report indicate that further risk assessment is not needed because the issues covered do not represent significant risks.

## 6 Conclusion and reasons for recommendation

- 6.1 The Accounting Policies form the basis of the figures in the Statement of Accounts.
- 6.2 The reason for the recommendation is to comply with the Audit Committee's responsibility to approve the Accounting Policies and subsequently produced Statement of Accounts each year.

|  |                 |           |              |
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| <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: | N/A          |
| (Portfolio: Finance and Resources) Councillor M Flood  |                 |           |              |
| Officer:   | Jenni Carter    | Ext:      | 8236         |
| Report to:   | Audit Committee | Date:     | 19 June 2023 |

## Statement of Accounts 2022/23

## Accounting Policies

**1. Accounting Policies**

- 1.1. This note sets out the accounting policies followed in compiling the Council's accounts. The aim of the note is to explain the basis of the figures in the accounts and to disclose policies that are significant and relevant to the Council.

**1.2. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Council is required to prepare an annual Statement of Accounts (by the Accounts and Audit regulations 2015) in accordance with proper accounting practices.

These practices primarily comprise; the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ('the Code') and the Service Reporting Code of Practice 2022/23 supported by International Financial Reporting Standards (IFRS) and statutory guidance.

The Statement of Accounts has been prepared on a going concern basis. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

**1.3. Prior Period Adjustments**

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or performance.

**1.4. Accruals of Income & Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts from service recipients, whether for services or the provision of goods, is accounted for when (or as) the goods or service are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services provided are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

#### 1.5. **Cash and Cash Equivalents**

Cash is represented by cash in hand.

Cash equivalents are deposits with financial institutions payable without penalty or notice, maturing in not more than one day and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement the cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

#### 1.6. **Provisions, Contingent Liabilities and Contingent Assets**

##### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate of the potential liability can be reasonably calculated.

Provisions are charged as an expense to the Comprehensive Income & Expenditure Statement in the year that the Council recognises the obligation and are shown at the best estimate of the eventual outcome at the Balance Sheet date.

Payments to settle the obligation are charged against the provision. Any difference between the provision and the actual settlement figure are charged to the Comprehensive Income & Expenditure Statement when the obligation is settled.

##### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

##### Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.



Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

#### 1.7. Reserves

The Council sets aside specific and general amounts as reserves for future purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to be included in the surplus / deficit on the provision of services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back in to the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets and retirement benefits and do not represent usable resources to the Council. Transactions with these reserves are explained in the relevant accounting policies below.

#### 1.8. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that;

- the Council will comply with the conditions attached to the payments and
- the grants / contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income & Expenditure Statement until conditions attached to the grant / contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant / contribution are required to be consumed by the Council as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants / contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors.

When conditions are satisfied, the grant / contribution is credited to the relevant Service line or Taxation and Non-Specific Grant income in the Comprehensive Income & Expenditure Statement.

Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. When the grant has been applied, it is posted to the Capital Adjustment Account.

#### Business Improvement District

A business improvement district (BID) scheme applies across Andover Town Centre. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as an agent under this scheme. Only the following amounts are recognised in the Council's Comprehensive Income & Expenditure Statement:

- BID levy amounts payable on the Council's properties within the BID scheme area are shown as service expenditure under the relevant service.
- BID levy collection costs are shown in the net cost of services under the relevant service.

#### Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy is charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy is used to fund infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges (5% for the Council) may be used to fund revenue expenditure.

### 1.9. **Employee Benefits**

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within twelve months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlement and accrued flexible working hours (based on an average per employee) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is charged to the surplus or deficit on the provision of services but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year that the absence occurs.

#### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the net cost of services in the Comprehensive Income & Expenditure Statement.

#### Post-Employment Benefits

The Council's employees are entitled to join the Local Government Pension Scheme administered by Hampshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for the Council.

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet based on an actuarial valuation.

Full details of the valuation method are shown in the employee benefits note to the core financial statements.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### **1.10. Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified.

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the end of the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

#### **1.11. VAT**

Income and expenditure excludes any amounts related to VAT to the extent that it is recoverable from HM Revenue & Customs.

#### **1.12. Overheads and Support Services**

The cost of overheads and support services are accounted for under two separate headings, Corporate & Support and Central Costs, in the Expenditure & Funding Analysis and the Comprehensive Income & Expenditure Statement as part of the net cost of services. They are not charged to service segments.

#### **1.13. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council (e.g. software licences) is capitalised when it is expected that the future economic benefits will flow to the Council.

Intangible assets are measured initially at cost. The balance is amortised over the useful life of the asset to the relevant service line in the Comprehensive Income & Expenditure Statement to reflect the pattern of consumption of benefits.

Amortisation is not permitted to have an impact on the General Fund Balance. These charges are reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

#### 1.14. **Investment Property**

Investment properties are those that are used solely to earn rental income and / or capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Investment properties are not depreciated but are revalued annually according to market conditions. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure section in the Comprehensive Income & Expenditure Statement. The same treatment is applied to gains / losses on disposal.

Investment properties under construction are measured at fair value once it is possible to measure reliably the fair value of the investment property, and at cost before that date.

Rentals received in respect of leases on investment properties are credited to the financing and investment income section and result in a gain for the General Fund balance. However, revaluation and disposal gains / losses are not permitted to have an impact on the General Fund balance. The gains / losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for sale proceeds) the Capital Receipts Reserve.

#### 1.15. **Property, Plant and Equipment**

Assets that have physical substance and are held for use in the provision of services, for rental to others or for administrative purposes on a continuing basis are classified as property, plant and equipment (PPE).

##### Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that secures but does not add to an asset's potential to deliver future economic benefits (i.e. repairs and maintenance) is charged as an expense when it is incurred.

A de minimis level of £10,000 is applied to capital expenditure. Any expenditure on land, equipment or other chattels below this amount is not recognised as an asset.

##### Measurement

Assets are initially measured at cost, comprising:

- the purchase price

- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Assets are then carried in the Balance Sheet using the following measurement basis:

- infrastructure and community assets – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income & Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income & Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income & Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to relevant service lines in the Comprehensive Income & Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would be charged if the loss had not been recognised.

### Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income & Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Depreciation

Depreciation is provided for on all assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets).

Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Componentisation of an asset will be considered where:

- The carrying value of an asset is greater than £1M and
- The component is at least 20% of the carrying value of the asset and
- The change in depreciation after componentisation is greater than £10,000 per annum.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **1.16. Heritage Assets**

Heritage assets are assets held primarily for their *historical, artistic, scientific, technological, geophysical or environmental qualities and maintained for their contribution to knowledge and culture.*

The Council does not have a policy in respect of the purchase, preservation, management and disposal of Heritage Assets.

Heritage assets are either excluded from the Balance Sheet or included within Community Assets, valued at historic cost. The Code requires Heritage Assets to be classified separately on the Balance Sheet and to be valued at fair value. The Council has not re-stated Heritage Assets in accordance with the Code due to their immaterial overall value. The impact of this is explained in note 19.

#### 1.17. **Charges to Revenue for Non-Current Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses, revaluation or amortisation. Depreciation, impairment losses, revaluation and amortisation are therefore replaced in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserve Statement.

#### 1.18. **Revenue Expenditure Funded From Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income & Expenditure Statement in the year. Where the Council has determined to meet the cost of these charges from existing capital resources, a transfer in the Movement in Reserves Statement from the General Fund balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

#### 1.19. **Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings' elements are considered separately for classification.

##### Criteria for determining whether a lease is finance or operating in nature

A number of factors are considered in determining whether a lease should be classified as finance or operating. Three of these are over-riding, the remainder are considered holistically to assess the nature of a lease.

Leases of land will be considered operating leases unless the land will be permanently impaired as a result of the lease (e.g. the land is used for mining).

Where it is almost certain that the lessee will retain the asset in perpetuity or until the end of the asset's useful economic life, the lease will be classified as a finance lease.

Where the Council leases a building to a tenant, the building element of the lease will be considered to be operating in nature if the lessee is required to return the building in a repaired condition at the end of the lease.

Factors that indicate a lease might be a finance lease include:

- Where the net present value of lease payments is more than 80% of the asset's purchase price.
- Where the lease period is longer than 75% of the asset's useful life.
- Where there are options to extend the primary lease at rates substantially lower than market rents.
- Where ownership transfers to the lessor at the end of the lease or there are options to buy the asset at the end of the lease term on favourable conditions which are reasonably certain to be taken up.
- Terms included in the lease which penalise the lessee more than the lessor in the event that the lessee cancels the lease.

#### Council as Lessee – Finance Leases

Assets held under finance leases are recognised on the Balance Sheet at the commencement of the lease at fair value measured at the lease's inception (or the present value of the minimum lease payments if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between;

- a charge for the acquisition of the interest in the asset – applied to write down the lease liability and
- a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income & Expenditure Statement).

Assets recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### Council as Lessee – Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as an expense of the services benefitting from the use of leased assets. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

#### Council as Lessor – Finance Leases

There are no leases that qualify as finance leases where the Council is the lessor.



### Council as Lessor – Operating Leases

Where the Council grants an operating lease over an asset, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

## **1.20. Financial Instruments**

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value and subsequently carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate is the rate that exactly discounts future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income & Expenditure Statement is the amount payable for the year according to the loan agreement.

### Financial Assets

Financial Assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income and expenditure (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the Comprehensive Income & Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the

Comprehensive Income & Expenditure Statement is the amount receivable for the year in the loan agreement.

Where the Council makes a soft loan (i.e. at less than market rate or with an interest free period), the loan will be shown in the balance sheet at carrying value rather than amortised value unless the value of the advance is greater than £500,000 or there is significant discounting of interest rates.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the CIES.

#### Expected Credit Loss Model

The Council recognises expected credit losses on all its financial assets held at amortised cost either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where the risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

#### Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at Fair Value through Profit or Loss are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market price – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

**1.21. Inventories**

Inventories are included in the Balance Sheet at the lower of cost or net realisable value.

**1.22. Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties, and some of its financial instruments, such as equity share holdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use it in its highest and best use.

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates and unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.