

Notice of Meeting

Audit Committee

Date: Monday 18 March 2024

Time: 5.30 pm

Venue: The Annexe, Crosfield Hall, Broadwater Road, Romsey, Hampshire,
SO51 8GL

For further information or enquiries please contact:

Sally Prior - 01264 368000
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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 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 18 March 2024

AGENDA

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

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|----------|--|----------------|
| 1 | Apologies | |
| 2 | Public Participation | |
| 3 | Declarations of Interest | |
| 4 | Urgent Items | |
| 5 | <u>Minutes of the previous meeting</u> | 5 - 8 |
| | To approve as a correct record the minutes of the meeting held on 12 December 2023. | |
| 6 | <u>External Audit Update</u> | 9 - 34 |
| | To present Ernst & Young's Value for Money Report.
(Kevin Suter and Andrew Brittain) | |
| 7 | <u>Annual Governance Statement 2023/24</u> | 35 - 50 |
| | To consider the approval of the 2023/24 Annual Governance Statement.
(Carl Whatley, Head of Finance and Revenues) | |
| 8 | <u>Internal Audit Progress Report to 29 February 2023 and Draft Annual Audit Plan 2024/25</u> | 51 - 70 |
| | To outline the work undertaken and progress against the Internal Audit Plan for 2023/24 by Internal Audit to 29 February 2024.
(Jan Balfour, Internal Audit Manager) | |
| 9 | <u>Corporate Risk Register - Update</u> | 71 - 79 |
| | To provide an update and summary of the key risks contained in the Council's Corporate Risk Register.
(Jan Balfour, Internal Audit Manager) | |

- | | | |
|-----------|--|-----------------|
| 10 | <u>Anti-Fraud and Corruption Policy (including Whistleblowing) - Annual Update</u> | 80 - 90 |
| | To provide an update on the Council's Anti-Fraud and Corruption Policy (including Whistleblowing).
(Jan Balfour, Internal Audit Manager) | |
| 11 | <u>Accounting Policies 2023/24</u> | 91 - 105 |
| | To present the Accounting Policies for the Statement of Accounts 2023/24 for approval.
(Jenni Carter, Accountancy Manager) | |

ITEM 5 Minutes of the **Audit Committee**
of the **Test Valley Borough Council**
held in The Annexe, Crosfield Hall, Broadwater Road, Romsey
on Tuesday, 12 December 2023 at 5.30 pm

Attendance:

Councillor C Borg-Neal
(Chairman)

Councillor S Hasselmann
(Vice-Chairman)

Councillor R Hughes

Councillor R Kohli

Also in attendance:

Councillor M Flood

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Apologies

Apologies for absence were received from Councillors Jeffrey and Leech.

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Public Participation

There was no public participation.

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Declarations of Interest

There were no declarations of interest.

344

Urgent Items

There were no urgent items to consider.

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Minutes of the previous meeting

Councillor Hasselmann proposed and Councillor Kohli seconded the motion that the minutes of the previous meeting were an accurate record. Upon being put to the vote the motion was carried.

Resolved:

That the minutes of the meeting held on 25 September 2023 be confirmed and signed as a correct record.

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External Audit Update

The Head of Finance and Revenues presented the report, which sought consideration of KPMG's draft audit report following the completion of the 2022/23 Housing Benefit Subsidy Claim audit.

The report set out the various responsibilities of both parties; the nature of the testing that was carried out; and the findings of KPMG's testing. The conclusions of the report were excellent, highlighting a very small number of errors, both in terms of percentage of the caseload and individual values.

The Head of Finance and Revenues advised the committee that there was no further update from Ernst & Young on the 2022/23 Statement of Accounts audit.

The following recommendation was proposed by Councillor Hasselmann and seconded by Councillor Kohli and unanimously agreed by the Committee.

Resolved:

That the draft report of KPMG, regarding the Housing Benefit Subsidy Assurance process, be noted.

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Internal Audit Progress Report

The report of the Internal Audit Manager set out the Internal Audit coverage, findings and performance for 2023/24 to 20 November 2023 and summary risk profiles for those areas reviewed.

Since 1 April 2023, the Internal Audit function had made good progress against the Annual Audit Plan 2023/24. Of the 6 audits reported as complete, 3 were classified as substantial assurance and 3 as limited assurance.

Following a question around the Community Councillor Grant, the Committee agreed that a review of the process would be considered as part of the Internal Audit Plan development for 2024/25.

The following recommendation was proposed by Councillor Hasselmann and seconded by Councillor Kohli and unanimously agreed by the Committee.

Resolved:

That the Internal Audit Progress report be noted.

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Annual Corporate Complaints Report - 2022-23

Consideration was given to a report of the Head of Strategy and Innovation which reported on complaints received from 1 April 2022 to 31 March 2023.

The Policy Manager reported that in the year 2022/23 there were 197 service level complaints (those dealt with by more than one service at the same time are counted as one complaint). From these 197 complaints, 38 were escalated to the Chief Executive and 8 were the subject of Local Government and Social Care Ombudsman (LGSCO) enquiries, with 2 being investigated.

Complaints at service level had increased this year, following decreases in previous years which were attributed to the impact of the Covid-19 pandemic.

The Policy Manager gave examples of some of the complaints received, which put the numbers into context.

The consistency of complaints reporting suggests that the complaints process continues to work effectively, and that the public is able to make a complaint with ease. Where necessary, trends are identified and managed by individual services. The Policy Manager will continue to work closely with Services to identify ways to effectively manage and resolve complaints.

The committee suggested that the deadline for the response to complaints should vary depending on the complexity of the response and that it would be good to see how many complex and non-complex complaints had been received over the year. The Policy Manager agreed to provide this information the next time the report was due to be presented.

The following recommendation was proposed by Councillor Hasselmann and seconded by Councillor Kohli and unanimously agreed by the Committee.

Resolved:

That the complaints report be reviewed and endorsed ahead of publication.

349 Report on the use of the Regulation of Investigatory Powers Act 2000

Consideration was given to a report of the Head of Legal and Democratic Services which updated Members as to the Council's use of its powers under Regulation of Investigatory Powers Act 2000.

The Home Office Covert Surveillance and Property Interference Code of Practice recommends regular reporting to elected members of a local authority's powers under the Regulation of Investigatory Powers Act 2000.

The following recommendation was proposed by Councillor Hasselmann and seconded by Councillor Kohli and unanimously agreed by the Committee.

Resolved:

That Audit Committee receives the report of the Head of Legal and Democratic Services on the Council's use of its powers under the Regulation of Investigatory Powers Act 2000.

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Audit Committee Away Day

Audit Committee discussed possible dates and times to hold an away day. The Committee Officer would send round a selection of dates for late February/early March 2024.

(The meeting terminated at 6.18 pm)

ITEM 6

External Audit Update

Report of the Head of Finance and Revenues

Recommendation:

That Ernst & Young's Value for Money Report, as shown in the Annex to the report, be noted.

SUMMARY:

The Council's external auditors, Ernst & Young, have prepared their 2022/23 Value for Money Report which is presented to the Audit Committee for consideration.

1 Introduction

- 1.1 The Council is required to produce and approve an Annual Statement of Accounts for each financial year.
- 1.2 Those accounts are subject to audit which is carried out by Ernst & Young (EY). EY report their opinion on the accuracy of the statement of accounts and also provide a value for money conclusion on the Council's use of resources.
- 1.3 This report presents the EY Value for Money Report for consideration and an update on the position regarding the national backlog of public sector audits.

2 Audit of Accounts

- 2.1 The Audit Committee has previously been informed of the shortage of audit capacity in the public sector and the issue of nationwide delays in the completion of audits.
- 2.2 DLUHC have recently concluded a consultation on proposals to clear the backlog of local audits in England. This sets out plans for a three-stage process that will; clear the current backlog (Reset); introduce new measures for completion of annual audits (Recovery); and address the systemic challenges being faced beyond the medium-term (Reform).
- 2.3 Under the first stage, all outstanding financial statement audits up to and including 2022/23 must be published by 30 September 2024 with a modified or disclaimed auditor opinion where a full audit has not been completed.
- 2.4 For Test Valley, accounts have been approved up to 2021/22 and so the only accounts this would affect are those for 2022/23.

- 2.5 During the recovery period (through to 2027/28) the deadline for publication of accounts and auditor opinions would be incrementally brought forward to a target date of 30 November each year.
- 2.6 The results of the consultation and the specific impact on Test Valley will be reported to a future Audit Committee meeting.
- 2.7 Working closely with EY, and in light of the limited guidance that is currently available, it is expected that a full audit of the 2022/23 statement of accounts will not be undertaken.
- 2.8 With the focus very much turning to resolving the audit backlog and with a need to ensure that 2023/24 financial statement audits are effectively planned and resourced, EY have begun the preparation for that audit.
- 2.9 EY and the Head of Finance and Revenues agree that any work to undertake an audit of the 2022/23 accounts at this stage is unlikely to be concluded before the 30 September deadline and would almost certainly lead to abortive audit costs that would not be value for money or an effective use of time.
- 2.10 EY will present details of their plans for the 2023/24 audit to a future meeting of the Audit Committee.

3 Ernst & Young's Annual Audit Results Report

- 3.1 Ernst & Young have carried out their review of the value for money arrangements at Test Valley Borough Council for the 2022/23 financial year.
- 3.2 There are three specified reporting criteria on which EY have reported, which are discussed fully in their report and shown in more detail in the Annex. Those three areas are:
 - Financial Sustainability
 - Governance
 - Improving economy, efficiency and effectiveness
- 3.3 In the case of all three headings, no significant risks or weaknesses have been identified.
- 3.4 Ernst & Young will introduce their report at the meeting and take any questions from committee members.

4 Risk Management

- 4.1 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.

5 Conclusion and reasons for recommendation

- 5.1 External scrutiny of the Council's governance arrangements is an essential part of demonstrating to the public and those charged with governance that the Council is efficient in its use of resources and accurate in the financial information it shares. EY's Value for Money Report helps to deliver that public assurance.

<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:	Carl Whatley	Ext:	8540
Report to:	Audit Committee	Date:	18 March 2024

Test Valley Borough
Council

Value for Money report

Year ended 31 March 2023

26 February 2024

26 February 2024



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

Dear Audit Committee Members

2022/23 Value for Money Report

We are pleased to attach our interim commentary on the Value for Money (VFM) arrangements for Test Valley Borough Council. This commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. The National Audit Office (NAO) issued a consultation on 8 February 2024 seeking views on changes to the Code of Audit Practice (the Code) to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements. The consultation proposes to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. At this stage, we are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 18th March 2024.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

01 Executive Summary



02 Value for Money Commentary



03 Appendices



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

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee 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.



BOARDROOM



01 Executive Summary

Executive Summary

Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditor's provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this interim commentary is to explain the work we have undertaken and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

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

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings to date from our planned procedures; and
- Summary of arrangements over the period covered by this report (Appendix A).

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

Executive Summary (continued)

Risks of Significant Weakness

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

- our cumulative audit knowledge and experience
- our review of Council committee reports,
- meetings with the Head of Finance and Revenues
- and evaluation of associated documentation through our regular engagement with Council management and the finance team.

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

Executive Summary (continued)

Reporting

Our commentary for 2022/23 is set out over pages 9 to 12. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see table below) throughout 2022/23. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2022/23.

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

In accordance with the NAO’s 2020 Code, we are required to report a commentary against three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body’s arrangements

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified

Executive Summary (continued)

Independence

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

There are no relationships from 01 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

EY Transparency Report 2023

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 2023:

[EY UK 2023 Transparency Report | EY UK](#)



02 Value for Money Commentary

Value for Money Commentary

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

No significant weakness identified

The Council managed its budget during 2022/23. It reported an outturn of £695k surplus mainly due to the savings in employee costs, and service costs, and additional income from services, and investment income. Moreover, the surplus was transferred to Budget Equalisation Reserve which will be used to mitigate future budget pressures.

The 2022/23 Budget and Council Tax Requirement was approved by Cabinet and Full Council in February 2022. For 2022/23, the Council was able to meet its legal requirement to set a balanced budget through increasing the Band D Council Tax by £5.00. The Medium Term Forecast (MTF) was also approved in February 2022. This showed that the Council had a forecasted deficit of £3.651M in 2023/24 increasing by £329,400 to a deficit of £3.944M in 2024/25. It also noted that further future financial forecasts become less certain and with fewer opportunities to make savings and efficiencies, pressure will increase on the Council to use its reserves to ensure financial stability.

More recently we have also noted that the 2023/24 Budget and Council Tax Requirement was approved by Cabinet and Full Council in February 2023. The Council has also increased the Band D Council Tax by £5.00 for the period 2023/24 which is a 3.25% increase as compared to the CPI inflation level of 10.5%. In February 2023, the MTF up to 2025/26 was presented to Cabinet. These forecasts indicated a deficit of £400,600 in 2024/25 increasing by £1.443M to a deficit of £1.844M in 2025/26. The increase in the gap for 2025/26 is mainly due to the consideration of full reset of business rates from April 2025 in the Council's assumption.

The most recent Budget and Council Tax requirement will be taken to Cabinet and Full Council in February 2024. This is showing a balanced budget position for 2024/25 through the increase to Band D Council Tax of £5.00. The above information shows how the MTF and budget are revised each year to address the upcoming deficits in order to produce a balanced budget, and the Council has a track record of addressing future forecast gaps and balancing its budget annually.

The Council has financial planning processes, and monitoring processes in place to help ensure the continuances of their services. In order to ensure these finances support the delivery of services the Council produces a "Corporate Plan" which sets out how the Council can build upon the strengths of the Borough and its communities to improve the quality of life across Test Valley. The Corporate Plan outlines the Council's vision and priorities for Test Valley over a four-year period. It sets the direction and provides a focus for all activities and services. As a result, it informs decision making and the allocation of resources across the Council.

The MTF feeds into the Corporate Plan by reviewing the financial implications of what the Council do and sets the annual budget.

In April 2023, the Council has launched its new Corporate Plan, "A Place for Everyone – Supporting our Communities to Thrive" which will cover the strategic year from 2023 to 2027.

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

Value for Money Commentary (continued)

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

No significant weakness identified

The Council has appropriate arrangements in place to make informed decisions and manage its risks.

The entity has a number of arrangements in place to ensure that appropriate decisions are made. The Council's Constitution records and regulates decision-making processes and the role of elected members and officers.

The Cabinet is the part of the Council which is responsible for most day-to-day decisions. The Cabinet is made up of the Leader, together with 7 other Councillors, who are all appointed by the Leader. When major decisions are to be discussed or made, these are published in the Cabinet's Work Programme in so far as they can be anticipated.

The Cabinet has to make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must be referred to the full Council to decide. Meetings of the Council's Committees and the Cabinet are open to the public except where exempt or confidential matters are being discussed.

In order to manage its risk, the Council has an Internal Audit Function. The 2022/23 Internal Audit Annual Report states that "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".

During the 2021/22 audit, we noted that Internal Audit did not produce a standalone year end Internal Audit Report for the year and rather this was just reported through the papers presented to the Audit Committee. We raised a recommendation to management in 2021/22 that a formal Internal Audit Report should be produced and presented to Committee at the year end. We note that this recommendation has been implemented in 2022/23.

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

Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

The Council has appropriate arrangements in place in relation to how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

In order to monitor performance and improve the way the Council delivers its services, the Council operates under a Corporate Plan. Throughout 2022-23 the Authority operated under the Corporate Plan 2019-23. The Corporate Plan sets out how the Council can build upon the strengths of the Borough and its communities to improve the quality of life across Test Valley. The Corporate Plan outlines the Council's vision and priorities for Test Valley over a four-year period. It sets the direction and provides a focus for all activities and services. As a result, it informs decision making and the allocation of resources across the Council.

Progress is monitored through a range of performance and satisfaction-based indicators against which progress can be judged. The indicators are used as part of a broader suite of operational management tools that ensure standards are being met ensuring that the things that matter most to residents are being delivered in an efficient and effective way.

In April 2023, the Council launched its new Corporate Plan, "A Place for Everyone - Supporting our Communities to Thrive" which covers the strategic year from 2023 to 2027. The updated Corporate Plan has the following priorities:

- Sustainability, delivering lasting benefits for our communities.
- Connection, building upon the identity, strengths, and ambitions of our communities.
- Inclusion, working together to create opportunities for our communities.
- Prosperity, economic growth that impacts positively on our communities.
- Environment, a greener borough for our communities.

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



03 Appendices

Appendix A - Summary of arrangements

Financial Sustainability

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

Reporting Sub-Criteria

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Findings

Regarding financial planning, the Council monitors its financial pressures in detail each month. The revenue budget must ensure that the resource allocation properly reflects the Council's Corporate Plan, Corporate Action Plan projects and service plans. Budgets (spending plans) are needed so that the Council can plan, authorise, monitor and control the way money is allocated and spent. To enable the Authority to prepare for events in advance, a rolling three-year medium term forecast is produced based on known and anticipated changes in the Authority's finances over that period.

In order to produce an initial Budget Forecast the prior year budget is 'rolled forward' to take account of inflation and any changes in the base level of expenditure and income. Following this, discussions are had with all Heads of Service and the Head of Finance and Revenues, to review all areas of each Service's budget to identify options to reduce net expenditure and to discuss any financial pressures to each Service.

Medium Term Forecast (MTF):

To enable the Authority to prepare for events in advance, a rolling three-year medium term forecast is produced based on known and anticipated changes in the Authority's finances over that period. The MTF sets out a framework for financial decision making and anticipates additional spending requirements and the level of savings that will be needed.

A Medium Term Financial Strategy (MTFS) is also approved each year and sets out the key financial assumptions that have been made in producing the MTF and sets out a proposed framework within which to work over the life of the strategy.

Annual Budget Setting Process:

The Head of Finance and Revenues is responsible for ensuring that a revenue budget and a forward financial forecast for three years is prepared each year for consideration by Cabinet.

Budget management ensures that once the budget has been approved by the full Council, resources allocated are used for their intended purposes and are properly accounted for. For the purposes of budgetary control by managers, a budget will normally be the planned income and expenditure for a service area or cost centre, broken down into a level of detail agreed by the Head of Finance and Revenues.

The Head of Finance and Revenues is responsible for establishing an appropriate framework of budgetary management and control to enable budgets to be monitored effectively. The Head of Finance and Revenues must monitor expenditure against budget allocations and report regularly to Cabinet on the overall position.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

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

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (cont.)	The Head of Finance and Revenues is responsible for controlling income and expenditure on their budgets and for monitoring performance, taking account of financial information provided by the Chief Officers. The Head of Finance and Revenues should provide a statement to the Cabinet as soon as practicable after 31st March each year setting out a comparison of the Council's actual and estimated income and expenditure and explanations of variances between the two for the preceding financial year.
How the body plans to bridge its funding gaps and identifies achievable savings	<p>The Council operates a Medium-Term Forecast and annual budget in order to conduct their financial planning. The Council aims to balance any funding gaps through the identification of revenue savings or generation of additional income. The use of reserves may be considered as a short term measure or in respect of areas of significant volatility such as retained business rates.</p> <p>The Council will also look to mitigate any risks by looking for further options for efficiency savings across all areas as part of their drive for continuous improvement. The Head of Finance and Revenues should encourage the best use of resources and value for money by working with Chief Officers to identify opportunities to improve economy, efficiency and effectiveness, and by encouraging good practice in conducting financial appraisals of development or savings options, and in developing financial aspects of service planning.</p>
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The Council has financial planning processes, and monitoring processes in place to help ensure the continuances of their services. In order to ensure these finances support the delivery of services the Council produces a "Corporate Plan" which sets out how the Council can build upon the strengths of the Borough and its communities to improve the quality of life across Test Valley. The Corporate Plan outlines the Council's vision and priorities for Test Valley over a four-year period. It sets the direction and provides a focus for all activities and services. As a result, it informs decision making and the allocation of resources across the Council.</p> <p>The MTF feeds into the Corporate Plan by reviewing the financial implications of what the Council do and sets the annual budget.</p>

Appendix A - Summary of arrangements

Financial Sustainability (continued)

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

Reporting Sub-Criteria	Findings
<p>How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system</p>	<p>Throughout the financial planning i.e. budget and MTF, consideration of other plans such as capital and treasury management also take place. The Capital, Investment, Treasury Management and Reserves strategies all form part of the annual budget setting process with the strategies being taken for approval at the same time as the revenue budget.</p> <p>The Capital Strategy sets out the framework within which all Council capital expenditure is approved, monitored and financed and demonstrates how the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The objectives of the strategy are to:</p> <ul style="list-style-type: none"> • Provide an overview of the governance process for approval and monitoring of capital expenditure. • Provide a longer term view of planned capital expenditure. • Provide expectations around debt and use of internal borrowing to support capital expenditure. • Define the authority's approach to commercial activities including due diligence and risk appetite. • Define the available knowledge and skills of the authority in relation to capital investment activities. <p>The Council's Corporate Plan sets out the Council's aims over the period 2019 - 2023. In particular this highlights the four priority areas that the Council is focussed on. The Capital Strategy will enable delivery of projects to reinforce these priority areas.</p> <p>The Council also operate a Treasury Management and Annual Investment Strategy.</p> <p>The Council is required to operate a balanced budget, which broadly means that income raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return.</p> <p>In addition to the above, the Head of Finance and Revenues is required to assess the adequacy of Revenue Reserves. Reserve balances have been identified as a key indicator of financial health and the Council continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget and capital programme and provide an adequate contingency for financial risks.</p>

Appendix A - Summary of arrangements

Financial Sustainability (continued)

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

Reporting Sub-Criteria	Findings
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>Please see documentation above about the annual budget setting process, MTF and Corporate Plan that the Council has in place.</p> <p>Throughout the preparation of each of these, risks are taken into consideration in order to see how they impact certain areas and what the financial implications of these risks might be.</p> <p>Monitoring of the budget through the year then identifies emerging trends and risks, and these are taken into account in the subsequent budget setting identifying pressures and changes since the prior budget setting or update reports.</p> <p>The Council has an effective risk management strategy in place to identify, mitigate and monitor the risks to the Council in delivering strategic objectives. This includes both financial and non-financial risks.</p>

Appendix A - Summary of arrangements

Governance

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

Reporting Sub-Criteria

Findings

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

The Council produces a risk management strategy which sets out clearly risk management implementation process and the roles and responsibilities of managing risk. This process involves identifying, analysing, prioritising, managing and monitoring risks that present themselves.

Quarterly reports are received from the internal auditors highlighting work carried out including a breakdown of fraud investigations with any significant issues detailed in summary format. 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.

An Internal Audit function is also in place at the Council. The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. Internal Audit progress reports are monitored regularly throughout the year.

How the body approaches and carries out its annual budget setting process

The Head of Finance and Revenues is responsible for ensuring that a revenue budget and a forward financial forecast for three years is prepared each year for consideration by Cabinet.

Budget management ensures that once the budget has been approved by the full Council, resources allocated are used for their intended purposes and are properly accounted for. For the purposes of budgetary control by managers, a budget will normally be the planned income and expenditure for a service area or cost centre, broken down into a level of detail agreed by the Head of Finance and Revenues.

The Head of Finance and Revenues is responsible for establishing an appropriate framework of budgetary management and control to enable budgets to be monitored effectively. The Head of Finance and Revenues must monitor expenditure against budget allocations and report regularly to Cabinet on the overall position.

The Head of Finance and Revenues is responsible for controlling income and expenditure on their budgets and for monitoring performance, taking account of financial information provided by the Chief Officers. The Head of Finance and Revenues should provide a statement to the Cabinet as soon as practicable after 31st March each year setting out a comparison of the Council’s actual and estimated income and expenditure and explanations of variances between the two for the preceding financial year.

Appendix A - Summary of arrangements

Governance (continued)

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

Reporting Sub-Criteria	Findings
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed	<p>Within the Financial Procedure Rules of the Council there are procedures in place to ensure the body has effective processes and systems to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed.</p> <p>The Head of Finance and Revenues is responsible for assisting the Authority to put in place an appropriate control environment and effective internal controls which provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations. They are also responsible for preparing an annual statement on the effectiveness of internal controls within the Authority's Annual Governance Statement.</p> <p>Internal Audit form part of this process through their audit plan, and raising recommendations for corrective action where needed.</p>
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	<p>The entity has a number of arrangements in place to ensure that appropriate decisions are made. The Council's Constitution records and regulates decision-making processes and the role of elected members and officers.</p> <p><u>Full Council</u> The Borough Council (comprising all 43 elected members) meets at least six times each year to conduct business. The Mayor of Test Valley acts as Chairman of these meetings. When the full Council meets, its agenda is largely devoted to discussion of reports and recommendations from Committees.</p> <p><u>The Cabinet</u> The Cabinet comprises eight elected members, who are appointed by the Leader and have powers to take decisions on the Council's behalf (generally concerned with operation of Council services and the formulation of policy). They also make recommendations for approval by the Council relating to the Council's overall policy framework.</p> <p><u>Overview and Scrutiny Committee</u> The main functions of this Committee include:</p> <ul style="list-style-type: none"> • developing and reviewing policy • holding the Cabinet to account in public for the discharge of the functions for which it is responsible

Appendix A - Summary of arrangements

Governance (continued)

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

Reporting Sub-Criteria

Findings

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee (cont.)

The Committee is a key mechanism for enabling Councillors to represent the views of their constituents and other organisations to the Cabinet, and seek to ensure that these views are taken into account in policy development. The Overview and Scrutiny Committee is responsible for scrutinising Cabinet decisions and holding the Cabinet to account, including examining the budget proposals and budget strategy proposed by the Cabinet to full Council.

Audit Committee

Council approved changes to its internal governance structure by establishing an Audit Committee on 6th April 2022. The Audit Committee undertakes the duties previously performed by the Audit Panel of the Overview and Scrutiny Committee (OSCOM) as well as specific functions that were undertaken by OSCOM and the General Purposes Committee.

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

We have inspected the website of Test Valley Borough Council and identified the various policies in place regarding the integrity, ethical values and behaviour of key executives.

To ensure effective leadership throughout the entity, members and officers work together to deliver agreed plans with defined functions and roles. These roles and responsibilities are set out in the Constitution and the rules under which they operate. In particular, it looks at how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Many of these processes are required by statute and regulations by Governmental and other bodies (e.g. CIPFA) while the Authority has determined others locally.

The Council has a sound management philosophy, demonstrates clarity of purpose and focus, with emphasis on performance and risk management. Our experience and knowledge of senior management is that they act with integrity, have good standards of behaviour and performance and lead by example. Both management and those charged with governance maintain an ethical stance and respond to instances of non-compliance with remedial action. There is an ethos of compliance with laws and regulations.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

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

Reporting Sub-Criteria

Findings

How financial and performance information has been used to assess performance to identify areas for improvement

The Corporate Plan sets out how the Council can build upon the strengths of the Borough and its communities to improve the quality of life across Test Valley. The Corporate Plan outlines the Council's vision and priorities for Test Valley over a four-year period. It sets the direction and provides a focus for all activities and services. As a result, it informs decision making and the allocation of resources across the Council.

Throughout 2022-23 the Authority operated under the Corporate Plan 2019-23. The Council has developed 4 priorities that they are committed to for the life of the plan:

- Town Centres – to adapt and be attractive, vibrant and prosperous places
- Communities – to be empowered, connected and to build upon their strengths
- People – to be able to live well and fulfil their aspirations
- The Local Environment – for current and future generations

Cabinet reviews the performance of the Corporate Plan on an annual basis. This enables the active performance management of the Corporate Plan and ensures the Council is allocating resource in the most effective way. Each year, the Leader of the Council will make an annual presentation to the Overview and Scrutiny Committee to report on progress made during that year. This will form the basis of an annual update report and will be published on the Council's website.

How the body evaluates the services it provides to assess performance and identify areas for improvement

Progress is monitored through a range of performance and satisfaction-based indicators against which progress can be judged. The indicators are used as part of a broader suite of operational management tools that ensure standards are being met ensuring that the things that matter most to residents are being delivered in an efficient and effective way. In addition, each of our services produces an annual Service Plan which describes the things they do and how they contribute to the Corporate Plan priorities. Progress is monitored on a quarterly basis through the service performance boards.

In April 2023, the Council has launched its new Corporate Plan, "A Place for Everyone – Supporting our Communities to Thrive" which covers the strategic year from 2023 to 2027. This plan has the following priorities:

- Sustainability, delivering lasting benefits for our communities.
- Connection, building upon the identity, strengths, and ambitions of our communities.
- Inclusion, working together to create opportunities for our communities.
- Prosperity, economic growth that impacts positively on our communities.
- Environment, a greener borough for our communities.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness (continued)

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

Reporting Sub-Criteria	Findings
<p>How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve</p>	<p>The Council has identified its key partnerships and promotes good governance in those. The Council's Contract Standing Orders and Financial Regulations contain specific sections on partnerships and identify officer responsibilities in relation to the management and involvement in partnerships. Protocols and agreements are put in place for the management of significant partnerships. A single strategic partnership for the Borough is in place called the Test Valley Partnership. It brings together the key partner agencies from across the public and voluntary and community sector. It meets twice a year and provides a place in which the key strategic issues facing the borough can be discussed, joint work developed and statutory duties met.</p>
<p>How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits</p>	<p>The Council's Contract Standing Orders contains specific sections on procurement and the Council's Procurement Strategy sets out the Council's vision for the way forward in its procurement of services, supplies and works for staff, partners, suppliers and stakeholders. The Contract Standing Orders states that "Every contract must be let in compliance with all applicable legal requirements, the Council's Procurement Strategy and the Council's Financial Procedure Rules".</p>

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ED None

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- (c) The Governance Framework in place at the Council
- (d) A review of its effectiveness
- (e) A separate Annex of best practice actions that have been identified and will be implemented during 2024/25.

- 2.3 The Review of Effectiveness has been carried out by the Internal Audit Manager, who has reviewed all of the internal audit work carried out during the year.
- 2.4 On the basis of Internal Audit work completed in 2023/24, the Internal Audit Manager has provided a “substantial assurance” opinion in respect of the Council’s risk management, control and governance arrangements.
- 2.5 The report is being presented to the Audit Committee ahead of the end of the financial year to which it relates. However, to receive the Council approval that will enable the AGS to be published alongside the Statement of Accounts, it needs to be considered at this meeting. An update to Councillors will be provided if any material events occur between the date of the meeting and 31st March.

3 Corporate Objectives and Priorities

- 3.1 In addition to its legal responsibilities, approval of an AGS is considered to be best practice and will ensure that proper arrangements are in place to deliver the aims of the Council’s Corporate Plan.

4 Consultations/Communications

- 4.1 The Chief Executive, Deputy Chief Executive and all Heads of Service have been asked to review the AGS and consider whether there are any areas which they felt are appropriate for disclosure. All comments received have been incorporated in the Statement.

5 Options and Options Appraisal

- 5.1 The Council has a statutory duty to approve an AGS. In view of this, if the annexed AGS is not recommended for approval, the Audit Committee should provide a clear indication as to what changes are needed in order for a revised version to be presented as soon as possible.

6 Risk Management

- 6.1 The research and preparation of the 2023/24 AGS has not identified any significant red or amber risks that need addressing.
- 6.2 Three areas have been identified where improvements can be made to existing controls to further strengthen the Council’s governance arrangements. These are summarised as an appendix to the AGS.

7 Resource Implications

- 7.1 There are no direct resource implications in approving the AGS. The publication costs can be met within existing budgets.

8 Legal Implications

- 8.1 The Council is required by the Accounts and Audit (England) Regulations 2015 to approve, and subsequently publish, the AGS with the Statement of Accounts.

9 Equality Issues

- 9.1 This report has not identified any equalities matters.

10 Conclusion and reasons for recommendation

- 10.1 The AGS is part of the framework for delivering good governance in local authorities. The Statement is signed by both the Leader and Chief Executive and is published with the Statement of Accounts each year to demonstrate a commitment to the continuous review and development of the Council's governance arrangements.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
Accounts and Audit (England) Regulations 2015			
<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:	Carl Whatley	Ext:	8540
File Ref:	N/A		
Report to:	Audit Committee	Date:	18 March 2024

Test Valley Borough Council Annual Governance Statement 2023/24

1 Scope of responsibility

- 1.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.3 The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Local Code of Corporate Governance is on the Council's website at:
<http://www.testvalley.gov.uk/aboutyourcouncil/corporatedirection/local-code-corporate-governance>, or can be obtained from the Head of Legal and Democratic Services.
- 1.4 This statement explains how the Council has complied, and continues to comply, with the principles underlying this code and also meets the requirements of regulation 6 of the Accounts and Audit (England) Regulations 2015, which requires all relevant bodies to prepare an annual governance statement.

2 The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, value for money services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk at a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

- 2.3 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they happen, and to manage them efficiently, effectively and economically.
- 2.4 The governance framework that has been in place at the Council for the year ended 31 March 2024 is explained in the following sections.

3 The governance framework

- 3.1 The key elements of the systems and processes that comprise the Council's governance arrangements are as follows:
- The Council has fulfilled the following key roles (now formally adopted as part of the Local Code of Governance):
 - To promote the well-being of the area and provide leadership to the community;
 - To ensure the provision of high quality services provided in-house, by private sector companies, (where the ability to influence exists), jointly with other Councils or agencies, or by the voluntary sector;
 - To be accountable and provide stewardship for the use of public funds and resources;
 - To build a strong sense of community.
- 3.2 In fulfilling these roles the Council is committed to following the seven core principles of good corporate governance identified in the CIPFA/SOLACE Guidance.
- 3.3 Partnership Working
- 3.3.1 A single strategic partnership for the Borough is in place called the Test Valley Partnership. It brings together the key partner agencies from across the public and voluntary and community sector. It meets twice a year and provides a place in which the key strategic issues facing the borough can be discussed, joint work developed and statutory duties (such as community safety) met.
- 3.3.2 The Test Valley Partnership and its umbrella groups (community safety management group, community resilience forum and the civilian military forum) all continued to meet during 2023/24. The partnership reviews its programme of work in light of where evidence is demonstrating a focus is required.
- 3.3.3 During this year the partnership has continued to demonstrate its added value by bringing partners together to work on key issues affecting communities in Test Valley by aligning work and resources and taking a focused and targeted approach to where it can make its greatest impact. A good example of this in practice has been the response to the Cost of Living crisis.

3.3.4 The headline outcomes were:

- A cost-of-living **information hub** on the Council website with input from a host of agencies.
- In 2023/24 the Cost of Living Grant scheme has awarded £21,000. This has enabled community-based organisations, from the hyper-local to the borough-wide, to support households struggling through the increasing cost of living. Projects funded include placing Citizen's Advice case workers at Foodbanks to extend their reach, clothing, shoe and school uniform provision for children, a travelling food pantry providing subsidised, healthy food in the rural areas, advice cafes, free dentistry, and a range of food support and breakfast club type projects.

3.3.5 As the Council's place-based approach has continued to develop, partnership websites such as Andover Vision and Romsey Future have been developed, where appropriate, due to the collaborative nature of the projects e.g. Romsey South of Town Centre. Consultation and project information has been posted to these websites with clear links back to relevant Council Services.

3.4 Community Working and the Corporate Plan

3.4.1 The Council has a clear vision of its purpose and desired outcomes for the short, medium and long term. These are encapsulated in its Corporate Plan and in its delivery vehicle, the Corporate Action plan through a range of corporate and service strategies.

3.4.2 There has been considerable consultation and stakeholder involvement in the development and progression of these plans and strategies and they are made available to the public through a variety of means including the Council's website, online newsletter and Test Valley News.

3.4.3 In April 2023 a new Corporate Plan "A Place for Everyone – Supporting our communities to thrive" was approved by Full Council. This followed an extensive evidence-led process that brought together the strategic influences facing the authority and an innovative and robust package of community engagement working with the Involve Foundation (a leading national organisation) to design and deliver a series of deliberative events across the borough to enable a representative group of the borough's population to come together to explore the future focus of the council's corporate plan priorities. Drawing upon lived experience, data and insights and facilitating deliberation amongst participants culminated in a series of robust outcome statements that informed the development of the council's strategic priorities.

3.4.4 The process to develop the Corporate Plan actively engaged Councillors throughout with involvement in the first phase of engagement at local events and with the active engagement of the council's overview and scrutiny committee throughout the process.

- 3.4.5 The Council has a longstanding strategic commitment to work with its communities collaboratively and the new corporate plan strengthens this further with recognition of how our strategic priorities will need to be agile in responding to the different needs of our communities within the borough. At the centre of this is the democratic role elected councillors play in bringing communities together to ensure inclusivity when undertaking local action planning and priority setting. The Council's Member and Community Development Group, chaired by the Leader of the Council, supports community councillors to engage more effectively with local residents and communities and has undertaken work to review and update its action plan which will ensure members are supported effectively in their role as community councillors.
- 3.4.6 In 2023 a focused programme of work to develop this further has been undertaken, supporting councillors to come together with local partners (such as parish councils) within their communities to explore the emerging issues and priorities and to begin a process of local (community-led) action planning. Further strengthening the approach to place-based working, this has involved the council's senior managers working alongside the community team and local councillors in delivering this programme of work. It forms a key part of the council's ongoing organisational development to enable us to be able to support our communities to thrive.
- 3.4.7 Building upon the practice and learning gained as part of the council's participation in the Innovation in Democracy Programme and our use of the approach to develop the new Corporate Plan, further opportunities to embed and develop our approach to innovative engagement practice through the use of deliberative engagement has taken place in 2023/24. This has included topics such as the future priorities for the Business Improvement District, the Council's approach to Communications and with plans for the year ahead for a second citizens assembly to take place in Romsey in summer 2024.
- 3.4.8 The Council formally reviews its progress and performance against its corporate priorities through an Annual Corporate Action Plan Report <https://www.testvalley.gov.uk/aboutyourcouncil/corporatedirection/corporate-plan-for-2019-to-2023> which is presented to Overview and Scrutiny Committee (OSCOM) and the Cabinet.
- 3.4.9 The Council's Consultation Portal provides a single link to all our current 'live' consultations, giving residents the opportunity to get involved, as well as access to details of the feedback from previous consultations.
- 3.4.10 There are a number of tools in place to enable the Council to hear the widest range of views from local communities, in a consistent way, as part of an evidence led approach to decision making. These include:
- Statement of community involvement.
 - Community Planning Toolkit.
 - Specialist advice and support through Community Engagement Officers and policy Team.
 - Equality objectives which set out how the Council will ensure an inclusive approach to consultation.

3.5 Committee Role in Governance

- 3.5.1 The Corporate Plan is supported by a performance management framework (including performance indicators) to measure progress and performance against the Corporate Action Plan is reported annually to Overview and Scrutiny Committee.
- 3.5.2 At its meeting on 6 April 2022 Council resolved to form an Audit Committee with effect from 18 May 2022 replacing the arrangements previously undertaken by the OSCOM Audit Panel. This committee has embedded itself effectively into the overall Council governance environment and met four times during the year.
- 3.5.3 Full Council is ultimately responsible for approving amendments to the Council's Constitution. The Head of Legal and Democratic Services is responsible for monitoring and reviewing the Constitution which is undertaken at least annually to ensure that it is up to date with current legislation and best practice.
- 3.5.4 The Cabinet has responsibility for the day-to-day operation of the Council's business unless that business is delegated specifically to another committee (e.g. Planning, Licensing) and ensuring that governance arrangements and compliance is adequate for the conduct of that business.
- 3.5.5 As part of the Council's open and transparent approach, Overview and Scrutiny Committee has responsibility for scrutinising the decisions of the Cabinet and reviewing the Council's policies and functions and making recommendations to the Cabinet as appropriate.
- 3.5.6 The Council's Audit Committee takes responsibility for audit and risk management issues, reviewing the Council's work in these areas and monitoring the progress and performance of both Internal and External Audit.
- 3.5.7 The Council's General Purposes Committee, together with the General Purposes Employment Appeals and Ethics Sub-Committee, have the role of promoting and maintaining high standards of conduct amongst Members and assisting them to observe the Authority's Code of Conduct. The work of the Sub-Committee is supported by the appointment of Independent Persons as required by the Localism Act 2011. The General Purposes Committee may receive reports as to the operation of the Code of Conduct. In addition, the General Purposes Employment Appeals and Ethics Sub-Committee will be required to determine complaints which are referred to it by the Monitoring Officer following investigation and direct or recommend any further action required consistent with the Localism Act 2011 and associated regulations.
- 3.5.8 Members of OSCOM undertake task and finish panel reviews. Once an area for review has been identified, the lead member/chairman of the panel presents the draft scoping document for the review to the full committee for consideration.

- 3.5.9 A full report is then subsequently presented to OSCOM once the review has been completed or reached an appropriate stage. This process has ensured more effective and focused reviews and a clear line of responsibility to the main committee. In addition, there is a standing Budget Panel which meet regularly throughout the year and covers the budget setting process of the Council. This panel reports to OSCOM on a regular basis and brings any issues of concern to the attention of the Committee.
- 3.5.10 The roles of the Cabinet, OSCOM, and other committees of the Council as well as specific roles assigned to the Leader, Deputy Leader, Portfolio Holders and senior officers of the Council are defined and documented within the Council's Constitution.
- 3.5.11 The Constitution clearly identifies the powers, duties and responsibilities delegated to the Leader, Deputy Leader, Portfolio Holders and Officers, and includes rules for how Council and committee meetings should operate and the relationship between Members and Officers.
- 3.5.12 The conduct of Members and Officers is regulated by separate codes of conduct within the Council's Constitution. The Council's General Purposes Committee together with the General Purposes Employment Appeals and Ethics Sub-Committee promote high standards of conduct by Members and the latter considers allegations of breach of the Code of Conduct by Members where referred to them.
- 3.5.13 Having regard to the benefits of remote meetings, the Council responded to the Government's consultation/call for evidence on the subject though legislation has not been forthcoming reinstating remote meetings. The Council has been able to continue to avail itself of the ability to conduct non-committee business remotely or in a hybrid fashion where appropriate. Officers are investigating the potential for live streaming Council meetings.

3.6 Supporting the Committee Role

- 3.6.1 The Council has a Strategy and Innovation Service to strengthen the Council's ability to develop and manage its corporate planning processes. The Service leads on key projects and programmes including the Council's approach to modernisation in its ways of working.
- 3.6.2 The quality and value for money of services provided to users is measured through the Authority's performance management system. This includes the measurement and review of performance against national and local performance indicators and actions taken to address areas for improvement. Performance is monitored regularly throughout the year.
- 3.6.3 The conduct of day-to-day Council business is regulated through policies and procedures such as Contract Standing Orders and Financial Procedure Rules. The delegations to Members and Officers are kept continually under review and revised as appropriate.

- 3.6.4 A comprehensive set of Human Resources policies ensures compliance with employment legislation and promotes good personnel practices. These include disciplinary and capability processes to deal with conduct or performance which is unacceptable. These policies and procedures are regularly reviewed and revised.
- 3.6.5 A People Strategy helps shape the cultural direction and people management practices for the future to enable the Council to achieve its ambitions over the next 3-5 years. This has been enhanced over 2023/24 through a process where all senior managers have participated in an exercise to review our values as an organisation and the culture within which we work.
- 3.6.6 Whilst being able to respond to the changing needs of local government and the borough's residents, this forms part of the Council's Corporate Framework with close links to the Corporate Plan and Medium Term Financial Strategy. Work has also been undertaken during the year to identify and review hard-to-recruit-to posts.

3.7 Finance and Risk Management

- 3.7.1 The Council has in place a Medium Term Financial Strategy, updated annually, which supports the aims of the Corporate Plan. The Medium Term Financial Strategy has been materially affected by macro-economic factors of high inflation and sustained increases in interest rates. The greatest risk to the MTFS is the uncertainty surrounding the potential for a business rates re-set which could see a material reduction in a key income stream, the timing and extent of which is beyond the Council's control.
- 3.7.2 Risk management is outlined in a Risk Management Strategy. Corporate and Service specific risks are subject to ongoing review and progress in managing the corporate risk register is reported to the Audit Committee on a six monthly basis.
- 3.7.3 Risk management is embedded within the Council's processes e.g. reports to decision-making committees use a template which includes a section on risk assessment which must be completed before the report can be considered. Risk registers are also established and managed for all major projects.

3.8 Equalities, Diversity and Inclusion

- 3.8.1 Elected Members and all officers are aware of their obligations under equality legislation, as well as the standards of behaviour and language which are expected from representatives and employees of the Council. Ongoing training is provided for both Members and officers.
- 3.8.2 Equality considerations including full impact assessments where necessary and appropriate are built into the Council's decision-making process. The Council has reviewed its corporate equalities objectives, alongside its duties under the gender pay gap publication requirements and Public Sector Equality Duty. The Council continues to deliver training on the Equality Act 2010 to new members of staff and to Members.

- 3.8.3 There is an area of Portfolio responsibility focused on “Diversity and Inclusion”. The Council has published information that demonstrates compliance with the Equality Duty as defined by the Equality Act 2010 on its website.
(<https://www.testvalley.gov.uk/aboutyourcouncil/corporatedirection/equality---diversity/equalities>)
- 3.8.4 The Council has established Disability Focus Groups that contributed towards the development of the new Corporate Plan. The groups are helping the Council and its partners on an ongoing basis.
- 3.8.5 The Council is a statutory partner with regards safeguarding its residents of all ages under both The Children Act 2004 and The Care Act 2014. The Council has in place a Safeguarding Children and Vulnerable Adults Policy and this and the associated procedures are monitored regularly to ensure compliance with these duties. The Council also liaises with both the Hampshire Safeguarding Children Partnership and Hampshire Safeguarding Adults Board to ensure this.
- 3.8.6 On an annual basis, the Council is required by the Hampshire Safeguarding Children Partnership (HSCP) to complete the required Section 11 audit which is a self-assessment of its position with regards its safeguarding duties. The last full audit which took place in 2023 concluded that the Council is compliant with Section 11 of The Children Act. Some minor areas of learning were identified through this process and actions have been implemented to address these. This will be reviewed by the HSCP in spring 2024.
- 3.8.7 On a bi-annual basis the Council is also required by the Hampshire Safeguarding Adults Board to undertake an audit of its position with regards its safeguarding duties, the last audit was undertaken in 2022 and concluded that the Council are compliant with our safeguarding duties. The 2024 audit will be due in March 2024.
- 3.9 Environmental and managing a changing climate
- 3.9.1 The Council approved a Climate Emergency Action Plan (CEAP) in 2020 to identify the steps it will be taking to work towards achieving carbon neutrality. Evidence has been gathered to provide information on greenhouse emissions, decarbonisation and how the Council can deliver its services in a more environmentally friendly way.
- 3.9.2 Measures have been introduced which have reduced the Council’s emissions. Work is ongoing to review the content of the CEAP considering both measures within the organisation but also supporting communities within the Borough to reduce their emissions.

3.10 Officer structure

- 3.10.1 The Chief Executive is the Council's Head of Paid Service and has overall corporate management and operational responsibility for the way in which the Council delivers its services. The Head of Legal and Democratic Services is designated as the Council's Monitoring Officer and has responsibilities under section 5 of the Local Government and Housing Act 1989 for ensuring that the Council complies with relevant laws and regulations and internal policies such as Contract Standing Orders. The Head of Finance and Revenues is designated as the Council's Section 151 Officer with responsibility for ensuring the "proper administration of financial affairs".
- 3.10.2 The Head of Finance and Revenues also has responsibility under section 114 of the Local Government Finance Act 1988 for reporting to the Council and the external auditor if the Council has made, or is about to make, expenditure which is unlawful.
- 3.10.3 These three statutory officers meet regularly throughout the year (plus as required on an ad hoc basis) to discuss significant corporate issues.
- 3.10.4 The CIPFA statement on the Role of the Chief Financial Officer in Local Government recommends that the Chief Finance Officer reports directly to the Chief Executive and be a member of the 'Leadership Team', of equal status to other members. The Council does not strictly comply with this requirement in that the Head of Finance and Revenues reports to the Deputy Chief Executive; however, he is a member of the Management Team (which is the local comparison with the CIPFA Leadership Team reference). In practice, the Head of Finance and Revenues is able to report directly to the Chief Executive and Members as and when required and is involved and consulted in all matters which have financial implications for the Council.

3.11 Complaints and Whistleblowing

- 3.11.1 The Council's Constitution contains a Confidential Reporting Code for Employees which safeguards "whistle-blowers" who raise legitimate concerns about the Council's actions and specifies how their concerns should be addressed. The Code is monitored by the Audit Committee.
- 3.11.2 Financial Procedure Rules require all staff to raise concerns about the use or misuse of Council resources with the Head of Finance and Revenues or Internal Audit who will carry out an independent investigation of the circumstances. Internal Audit also actively encourages staff to raise matters of concern through "Speak Up" campaigns. A form is available on the Council's intranet for staff to raise concerns (anonymously if desired) about the use of Council resources and this facility has been extended to the website so that members of the public can raise concerns in this area.
- 3.11.3 The Council also has a formal complaints procedure for members of the public to raise issues, e.g. where they are dissatisfied with the service they have received, and an annual report is prepared for the Audit Committee summarising these complaints and how they were resolved.

3.11.4 The Council has a detailed Anti-Fraud and Corruption Policy which includes Whistleblowing and sets out the roles, responsibilities of officers and Members and actions to be taken when fraud or corruption is suspected. In addition, an Anti-Bribery Policy has been approved to address the requirements of the Bribery Act 2010.

3.12 Training and awareness

3.12.1 The Democratic Services Manager is responsible for identifying and providing for Councillors' training needs. The Council has a cross-party Member and Community Development Group which is supported by officers from a range of services.

3.12.2 This Group has continued to work to promote an enhanced 'Community Councillor' role for Councillors that focuses on them acting as a catalyst for change to encourage communities to reach their full potential. This work has brought together the needs and expectations of our communities in order to make balanced decisions, and has ensured a culture of democratic accountability is embraced throughout the Council.

3.12.3 The Group assists the Council in developing a programme of Councillor training and development that is shaped by the Councillors themselves, ensuring that training and development activities offered is tailored to individual Councillor needs as well as the needs of Councillors generally, the council and communities. This work has been shared with the Councillor Commission and has become a key part of the ongoing work that supports this national project.

3.12.4 All new Councillors are provided with induction training to assist them with understanding and successfully carrying out their different roles, with an ongoing programme of training and development provided on specific issues where appropriate e.g. planning, and to build key skills and knowledge.

3.12.5 All officers also receive induction training and appropriate professional and skills training and development identified, for instance, through annual performance discussions.

3.12.6 An exercise was undertaken during the year to remind all officers with responsibility for procuring goods and services of the requirements of Contract Standing Orders. This has proved to be successful, with the Procurement Officer reporting an increase in requests for support in undertaking procurement exercises.

3.12.7 Publications such as Test Valley News are sent to all households and the Council's website is an important source of information about the Council and its services. The Council's website has been designed to make it more accessible to residents and businesses of Test Valley and to make it easier to undertake transactions online.

3.12.8 In addition, the council has continued to grow its email newsletter with the inclusion on specific topics that residents can subscribe to. This includes Green Test Valley, Business Matters, Events and News and Regeneration. During the last year for news and events there has been an increase of 2000 subscribers demonstrating this method of communication is becoming a key part of reaching a wider audience. A Communications Strategy has been produced to support the emerging Corporate Plan.

4 Review of effectiveness

- 4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the annual report of the Internal Audit Manager, and also by comments made by the external auditor and other review agencies and inspectorates.
- 4.2 The Council's Internal Audit team, located within the Finance and Revenues Service, carries out a continuous review of the Council's systems to provide independent assurance that the control environment is effective in achieving the Council's objectives. The team objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Authority's resources.
- 4.3 The performance of the Internal Audit team is monitored by the Council's Audit Committee and Section 151 Officer. The Internal Audit Manager presents the Internal Audit Charter, Strategy and Annual Audit Plan to the Audit Committee and produces an Annual Report giving an opinion of the adequacy of the Council's systems of internal control.
- 4.4 An external assessment of the internal audit function's conformance with the Public Sector Internal Audit Standards (PSIAS) was carried out in February 2024. 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 evaluation of Internal Audit performance to drive improvement planning.
- 4.5 The external assessment concluded that the function "generally" conforms to the standards A report of the outcomes together with a development plan is reported to the Audit Committee.

- 4.6 There is evidence that the work the Internal Audit function has delivered is effective. It is a highly respected service that is engaged with the organisation and which provides ongoing support in key areas, as well as effective assurance on controls.
- 4.7 The Internal Audit Manager has provided substantial assurance in respect of the Council’s risk management, control and governance arrangements. “Substantial Assurance” means that systems in place are generally sound, but some best practice developmental areas have been identified to strengthen the Council’s governance arrangements. These form the basis of the action plan appended to this Statement.
- 4.8 The Council is regularly audited by the External Auditor (Ernst and Young LLP) who independently examines the Council’s accounts and financial systems and who presents an [Annual Audit Report](#) to Members, the latest available covering the financial year 2021/22. This was a positive report with an unqualified opinion on the Council’s accounts, system of internal control and arrangements to achieve value for money. Due to issues at a national level with auditor capacity in the public sector it is not expected that an audit opinion will be received for the 2022/23 financial year.
- 4.9 EY have, however, been able to issue a value for money statement in respect of the 2022/23 financial year which identified no weaknesses in the Council’s financial sustainability; governance; or efficiency and effectiveness.

5 Declaration

- 5.1 We have been advised on the implications of this review of the effectiveness of the governance framework and of any significant governance issues. A plan to address weaknesses and ensure continuous improvement of the system is in place as shown in the attached annex.
- 5.2 We propose over the coming year to take steps to address these matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: **Signed:**

Leader of the Council

Chief Executive

Governance Actions for 2024-25

No significant governance issues have been identified. The following are best practice developmental areas to strengthen the Council's governance arrangements.

Issue	Action to be Taken	Timescale	Lead Officer
Risk Management To develop the links between the Corporate Risk Register and Service Registers following a change to the way the Corporate Risk Register is presented.	For the Internal Audit team to work with all services to ensure a consistency of approach in preparing and reviewing Service Risk Registers.	31/03/25	Head of Finance and Revenues
Service Planning and Performance Management Embed the council's new performance management framework launched in April 2024	To deliver an integrated approach to performance management, the preparation and monitoring of the Corporate Action Plan, new approach to Service Planning, Performance indicators/ impact measures and risk.	September 2024	Head of Strategy and Innovation
Procurement, Contract Management and Monitoring To strengthen procurement, contract management and monitoring practices in light of changes required by the Procurement Act 2023.	Update the Contract Standing Orders section of the Constitution to ensure the Council's policies and procedures reflect changes to legislation.	31/07/24	Head of Finance and Revenues / Head of Legal and Democratic
	Implement training on the requirements of the Act to ensure all officers who procure goods on behalf of the Council are aware of their responsibilities.	30/09/24	Head of Finance and Revenues / Head of Legal and Democratic
	To introduce a more rigorous approach to contract monitoring within services.	31/03/25	Head of Finance and Revenues

ITEM 8 Internal Audit Progress Report to 29 February 2023 and Draft Annual Audit Plan 2024/25

Report of the Internal Audit Manager

Recommended:

- 1. That the Internal Audit progress report be endorsed.**
- 2. That the Draft Annual Audit Plan for 2024/25 be approved.**

SUMMARY:

- The report sets out the Internal Audit coverage, findings and performance for 2023/24 to 29 February 2024 and summary risk profile for those areas reviewed. The executive summary detail, assurance opinion and risk profiling definitions are detailed in Annex 1.
- The report also presents the Draft Annual Audit Plan for 2024/25 in Annex 2 which has been aligned to current risks and reflects the Council's key priorities and objectives.

1 Introduction

- 1.1 The Annual Audit Plan for 2023/24 was approved by the Audit Committee on 27 March 2023. The Draft Audit Plan for 2024/25 is shown in Annex 2 to this report.
- 1.2 The scope of audits included in the plans 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 plans 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 2023, the Internal Audit function has made good progress against the Annual Audit Plan 2023/24, as summarised in the Internal Audit Progress Report in Annex 1.

- 3.2 Of the 4 audits reported as complete in Annex 1, 3 were classified as substantial assurance and 1 had a split assurance opinion of substantial/limited. The executive summary detail, assurance opinion and risk profiling definitions are detailed in Annex 1.
All actions arising from audit reviews to date have been accepted by management and programmed for implementation.

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

- 4.1 The Audit Committee will receive, as part of the Annual Report at the June 2024 meeting a summary 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 2023 and an external review has recently been concluded. 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.

The external review has concluded that the Council "generally conforms" to the standards. There were however areas identified where further developments could improve the efficiency and effectiveness of the team going forwards. A summary of these areas and development plan will be brought to the Audit Committee in June 2024.

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 Internal Audit Plan for 2024/25 has involved full consultation with senior management.

7 Risk Management

- 7.1 The annual audit plan 2024/25 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 has experienced resource pressure following the departure of the Senior Auditor in September. This position has now been filled with effect from 19 February. The Annual Audit Plan for 2024/25 is therefore based on a full complement of 3 FTE. The shortfall during the 2023/24 Audit Plan has been addressed with the deferral of audits as previously reported to and approved by the Audit Committee.

9 Equality Issues

- 9.1 No equalities matters have been identified in the preparation of this report.

10 Conclusion

- 10.1 This report outlines the work undertaken and progress against the Internal Audit Plan for 2023/24 by Internal Audit to 29 February 2024.
- 10.2 As at 29 February 2024 progress on the 2023/24 Annual Audit Plan is on target to complete the revised plan and all core audits to at least draft report stage by 31 March 2024. It is not anticipated that additional external resource will be needed to support the delivery of the plan.
- 10.3 An Internal Audit plan for 2024/25 is presented based on the outcomes of consultation with stakeholders and an assessment of risk inherent to Council processes.

<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:	18 March 2024



Internal Audit Progress Report as of 29 February 2024

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).

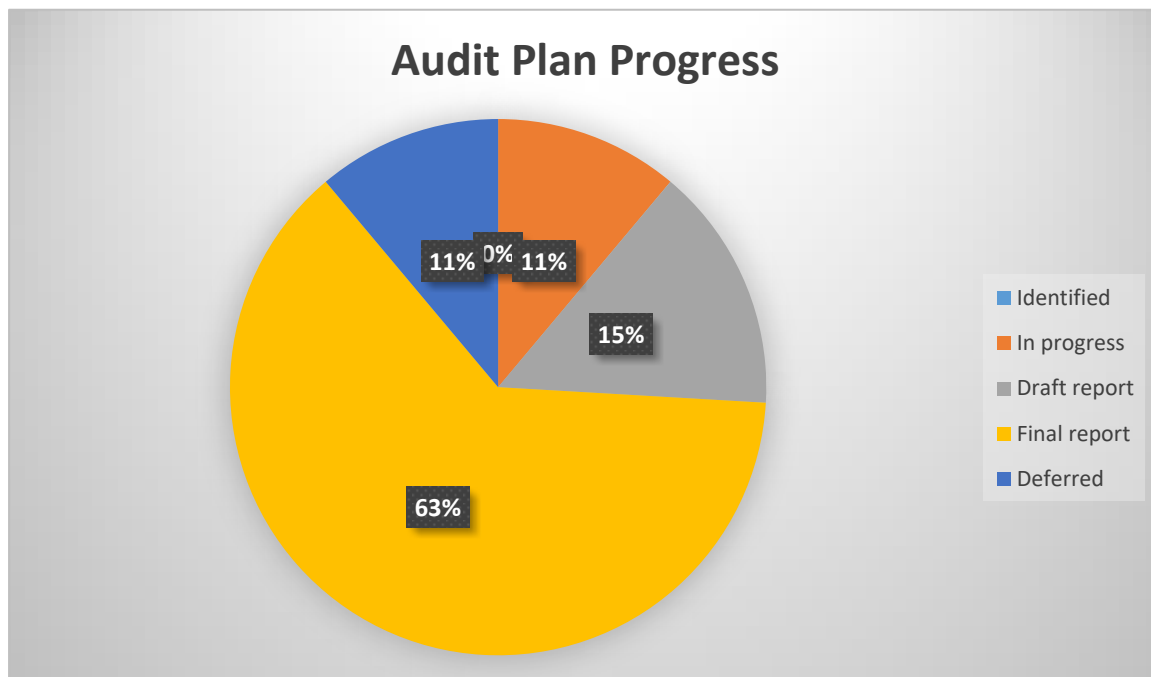
Internal Auditing is an independent, objective and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control,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

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

2.0 Audit Plan 2023/24 Progress as at 29 February 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 audits commissioned by the S151 Officer. 2 reserve audits, which were to be undertaken if capacity allowed have not been included.

To date 17 (63%) have been completed, 4 (15%) are at draft report stage and 3 (11%) are in progress.



Audit Plan 2023/24 Summary:

	Audit Assignment:	Planned Days:	Progress as at 29/02/24:
	CORE AUDITS		
1.	Accounting	10	Draft Report Stage
2.	Treasury Management	8	Complete. See Section 8 below.
3.	Benefits	11	Complete. See Section 8 below.
4.	Revenues System	10	Complete. Reported to September Audit Committee.
5.	Income Collection	10	Draft Report Stage
6.	Council Tax and NDR	15	Complete. See Section 8 below.
7.	Creditors	10	Draft Report Stage
8.	Debtors	10	Draft Report Stage
9.	Payroll	15	In progress
10.	Follow up 1	7	Complete. Reported to June Audit Committee
11.	Follow up 2	7	Complete. Reported to December Audit Committee.
	CORPORATE/CROSS SERVICE AUDITS		
12.	Procurement > £100k	10	Complete. Reported to September Audit Committee.
13.	Valley Housing	10	Complete. Reported to December Audit Committee.
14.	Chantry Centre	10	In progress
15.	Kier Contract	5	In progress
16.	Corporate Governance	8	Complete. No report. See Annual Governance Statement item.
17.	Risk Management	10	Deferred to 2024/25 Annual Audit Plan
18.	Grants	10	Deferred to 2014/25 Annual Audit Plan
19.	Floats & End of Year	5	Complete. Reported to September Audit Committee.
20.	IT Virtualisation (VMWare)	10	Complete. Reported to December Audit Committee.
21.	Mobile Devices	10	Complete. Reported to December Audit Committee.
	Audit Assignment:	Planned Days:	Progress as at 29/02/24:

	SERVICE AUDITS		
	Building Maintenance	0	Reserve audit. Not undertaken. Included in 2024/25 Annual Audit Plan under "Procurement"
	Food Safety	0	Reserve audit. Not undertaken. Included in 2024/25 Annual Audit Plan
22.	Fuel Usage	8	Complete. Reported to December Audit Committee.
23.	CIL/S106	10	Complete. See Section 8 below.
24.	Events and Public Hall Bookings	8	Complete. Reported to September Audit Committee.
25.	Portway Business Park	10	Deferred to 2024/25 Annual Audit Plan
26.	Housing Support Grants (S151)	15	Complete. Reported to December Audit Committee.
27.	Community Grants (S151)		Complete. Reported to December Audit Committee.

3.0 Ongoing Activities

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

Adhoc advice and assurance.

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

Audit Planning and consultation.

Oversight of Corporate Risk Management and fundamental review of the way the Corporate Risk Register is presented and updated.

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 6 projects including:

- Andover and Romsey Town Centre Redevelopment
- Elections system
- Waste Strategy (Environment Act)
- Bourne House Decarbonisation
- Internal Review
- Replacement BACS system

4.0 CONTINGENCIES

1 special investigation has been concluded.

2 pieces of work have been undertaken under provision of requests from the S151 Officer, these include a probity review of Community Grants and post assurance review of Housing Support Grants issued.

5.0 AUDIT PLAN CHANGES

Due to a reduction in staff resource availability during the year (Senior Auditor vacancy) 2 audits have been deferred to the 2024/25 Audit Plan. These include Risk Management and Grants. This will also enable revisions to the risk management arrangements to become fully embedded and specific grants have been reviewed on a probity basis elsewhere in the 2023/24 plan.

An additional 20 days has been added to the 2023/24 Audit Plan to provide project assurance support to the Regeneration programme as agreed at the September Audit Committee.

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 Moderate	Substantial or Full*	Substantial	Substantial or Limited*	Limited
E Low	Full	Substantial or Full*	Substantial*	Limited
F Very Low	Full	Full	Substantial	Substantial or Limited*
	IV Negligible	III Significant	II Critical	I Catastrophic

Impact

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

The following summaries relate to Audits from the 2023/24 Audit Plan not previously reported to the Audit Committee.

1.

Control Weaknesses Identified:		
High	Medium	Low
0	2	2

**Treasury Management
2023/24**

Overall Assurance Opinion:
Substantial Assurance
Agreed action is scheduled to be implemented by 31/03/24

Scope:	Control Weakness:	Control improvement upon implementation:
<ul style="list-style-type: none"> Loans are administered in accordance with Council Policy and Procedures. Documentary evidence and records/accounts are maintained to support the transfer of funds and are securely held. Investments are placed with reputable firms and are regularly monitored and reported. Procedures for the use of investment brokers are sound. Investments are calculated and valued appropriately. Payments are for the correct amounts and properly transferred. Interest is correctly calculated. Adequate segregation of duties is in place, loans are appropriately authorised and periodically reconciled with an independent source. Procedures for the management of the Authority's cash flow are adequate and working effectively. Compliance with the latest code of practice from CIPFA on Treasury Management. 	<ul style="list-style-type: none"> Treasury Management Practice Note - TMP10 (Training requirement for members) has not been updated following the introduction of COP2021 in April 2023. Training has not been provided to Members tasked with treasury management responsibilities including those responsible for scrutiny. The Treasury Management Practices document remains in "draft" format. Spread sheet headings and titles do not in all cases reflect the date of the latest Investment position. One control account reconciliation had not been maintained in 2023-24. Although not part of the Investment Portfolio this is a record of Rental Deposits which requires monitoring. Reconciliations between the loans register (PWLB) and the general ledger are not performed. 	<ul style="list-style-type: none"> Improved Member awareness of their responsibilities regarding treasury management. Rental deposits are effectively monitored. Any irregularities or inaccuracies in loan transactions are detected and investigated. Clear and accurate record keeping maintained.

2.

Control Weaknesses Identified:		
High	Medium	Low
0	1	1

Housing Benefit and Council Tax Support 2023/24

Overall Assurance Opinion:
Substantial Assurance
Limited Assurance – <i>in respect of previous actions around the monitoring of overpayments and Debt Recovery action.</i>
Agreed action is scheduled to be implemented by 30/04/24

Scope:	Control Weakness:	Control improvement upon implementation:
<ul style="list-style-type: none"> • Dealing with Customers • Registration and Assessment of claims • Payments • Overpayments and Recovery • Refunds • Write-offs 	<ul style="list-style-type: none"> • Performance is not meeting current targets in respect of call answering and speed of processing claims and change of circumstances. • The reconciliation for Housing Benefit and Council Tax Support payments on the NEC system to the General Ledger (Cashbook) had not been countersigned (10/11/23). 	<ul style="list-style-type: none"> • Targets are more realistic based on capacity and DWP requirements. • Any irregularities/inaccuracies are promptly identified and investigated.

3.

Control Weaknesses Identified:		
High	Medium	Low
0	4	0

Council Tax and Non-Domestic Rates

Overall Assurance Opinion:
Substantial Assurance
Agreed action is scheduled to be implemented by 31/03/24

Scope:	Control Weakness:	Control improvement upon implementation:
<ul style="list-style-type: none"> Valuation Discounts, exemptions, and reliefs Suppression of bills Annual and ad hoc billing arrangements Income collection Refunds Recovery Write-offs 	<ul style="list-style-type: none"> For suppressed accounts, 1 Ctax account out of 10 tested had no recorded reason for suppression. Write-offs are adjusted if payments are subsequently received. There is no clear audit trail from the record of adjustment to the original write-off form to evidence the accuracy of the adjustment. An annual review of CTax and NDR discounts, relief and exemptions has not been undertaken and no timetable for the year 23/24 established. The suspense accounts for CTax and NDR are not comprehensively reviewed on a regular basis by the Systems Team. Transactions relating to previous years are not investigated after that year has ended (unless the Revenues Team are contacted and informed about the payment). 	<ul style="list-style-type: none"> Authorisation of suppressed accounts is evidenced. Amounts written-off are accurately recorded. Void property relief, discounts and exemptions are legitimately claimed. Suspense accounts are fully and regularly reviewed.

4.

Control Weaknesses Identified:		
High	Medium	Low
0	4	0

Community Infrastructure Levy and S106 Contributions 2023/24

Overall Assurance Opinion:
Substantial Assurance
Agreed action is scheduled to be implemented by 30/06/24.

Scope:	Control Weakness:	Control improvement upon implementation:
<ul style="list-style-type: none"> • Central recording and monitoring of agreements and financial obligations and contributions. • Expenditure - use of S106/CIL funds including schemes delivered by third parties. • Reconciliation of the Planning & Building records (including Exacom) to the Efin system. • Annual reporting – Infrastructure Funding Statement. 	<ul style="list-style-type: none"> • Outstanding S106 contributions payments are not followed up pending establishment of a Compliance Officer post. Contributions are triggered on commencement or occupation which cannot be confirmed without site visits and/or engagement with building control records. • Evidence of expenditure (invoice and photos) in respect of contributions to Parish Councils is requested but is not robustly followed up if not received. • A full reconciliation of historic (prior financial years) S106 balances is not undertaken between the Planning & Building Payments received spreadsheet and the E-Financial system/Accountancy records on a regular/routine basis. • There is no routine monitoring/reconciliation of S106 contributions received balances to ensure potential projects can be identified and initiated within any prescribed time limits for allocation. 	<ul style="list-style-type: none"> • S106 contributions are promptly received upon the trigger being reached. • Funds are confirmed as used for the purpose set out in the terms of the S106 agreement. • Planning and Finance records relating to S106 balances agree and any discrepancies promptly investigated. • Projects are allocated within any prescribed timescale within the S106 agreement.

9.0 Control Weaknesses

Of the 4 audits completed, where an opinion has been given 30 exceptions have been raised:

Risk:	No. of exceptions (actions):
High	0
Medium	11
Low	3

ANNEX 2 - DRAFT AUDIT PLAN 2024-25

<u>Planned Days</u> <u>2023-24</u>	<u>Audit Assignment</u>	<u>Planned Days</u> <u>2024-25</u>	<u>Quarter</u>	<u>Comment</u>
	CORE AUDIT (COMPULSORY)			
10	Accounting System	10	Q4	
8	Treasury Management	8	Q3	
36	Benefits	36	Q3	
	Council Tax & NDR		Q3	
	Revenues Systems		Q1	
10	Income Collection	10	Q3	
10	Creditors	10	Q2/Q3	
10	Debtors	10	Q2/Q3	
15	Payroll	15	Q4	Also review compliance with contract
14	Follow ups	14	Q1 & Q3	2 audits
113	Subtotal	113		
	CORPORATE/CROSS SERVICE AUDITS			
35	Procurement & Contracts	30	Q1-Q4	Including contract management and compliance processes
	1. Procurement > £100k (10 days)			
	2. Chantry Centre (10 days) deferred from 2023-24			
	3. New Neighbourhoods (Action plan follow up) (5 days)			
	4. Managed Sports facilities - ACS Pre-tender scoping (5 days)			
8	Corporate Governance	8	Q4	Review of Annual Governance Statement.
10	Risk Management	10	Q1	Deferred from 23-24
10	Grants	10	Q1	Focus on performance parameters for large grants to voluntary bodies
0	VAT	8	Q1	Quality of advice and proper treatment
5	Floats & End of Year	3	Q1	End of year reconciliation processes
20	ICT audits:	30	Q2/3 Q1	Working in liaison with WCC ICT Auditors (Southern Internal Audit Partnership (SIAP))
	Audits jointly agreed			
	1. Cyber Security (Roadmap/Response Planning)(10 days)			
	2. Patch Management (10 days)			
	3. Microsoft Enterprise - Licence Management (10 days)			
88	Subtotal	99		

ANNEX 2 - DRAFT AUDIT PLAN 2024-25

<u>Planned Days</u> <u>2023-24</u>	<u>Audit Assignment</u>	<u>Planned Days</u> <u>2024-25</u>	<u>Quarter</u>	<u>Comment</u>
	ONGOING ACTIVITIES			
15	Advice & Assurance	10	Q1-Q4	Include procurement advice
10	Anti-Fraud & Corruption Policy and Whistleblowing (training, communications & policy updates)	5	Q1-Q4	Development of fraud awareness promotion (intranet and internet)
40	Audit Planning & Reporting	40	Q1-Q4	Audit Committee reporting, Audit assignment planning and management, development of IA processes etc.
7	NFI	7	Q1-Q4	
1	External Audit Liaison	1	Q1-Q4	
40	Role in Major Projects 1. Business Continuity/Disaster Recovery 2. Andover & Romsey Town Centre Redevelopment 3. Office 365 4. efin 5. Environment Act 6. Land Charges 7. Asset Management system 8. Kier contract	45	Q1-Q4	Projects and time allocation will be assessed throughout the year in consultation with Strategy & Innovation and will include but are not limited to those listed. New theatre and Business Planning (The Lights) in meantime
113	Subtotal	108		
	SERVICE AUDITS			
8	Fuel Usage	0		
10	CIL/S106	0		
8	Events & Public Halls bookings	0		
10	Portway Business Park	10	Q4	Deferred from 23-24
0	Food Safety	10	Q4	
	TV Lettings - Rent deposits	10	Q2	
	Compliance - Health & Safety (PAM)	10	Q2	
36	Subtotal	40		

ANNEX 2 - DRAFT AUDIT PLAN 2024-25

<u>Planned Days</u> <u>2023-24</u>	<u>Audit Assignment</u>	<u>Planned Days</u> <u>2024-25</u>	<u>Quarter</u>	<u>Comment</u>
	CONTINGENCIES			
15	S151 Requests	15	Q1-Q4	
15	Special Investigations	15	Q1-Q4	
20	Work carried forward of work in progress from previous year.	20	Q1	
50	Subtotal	50		
400	Total Audit Days planned	410		
	Total Audit Resource Available	410		

ITEM 9 Corporate Risk Register – Update

Report of the Internal Audit Manager

Recommended:

That the updated Corporate Risk Register be noted.

SUMMARY:

This report provides the Audit Committee with an update and summary of the key risks contained in the Council's Corporate Risk Register (attached as Annex 1).

1 Introduction

- 1.1 The purpose of risk management is to assess the potential barriers to achieving the Council's corporate objectives and priorities. Management recognises the need to embed robust risk management arrangements.
- 1.2 Maintaining up-to-date risk registers at both a Corporate and Service level assists with the management of risks and monitoring of the actions to mitigate them.

2 Risk Management Process

- 2.1 The key stages of the risk management are set out below:
- 2.2 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 risk registers, significant issues coming out of internal reviews, Council decisions and ongoing discussions with senior management.
- 2.3 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.
- 2.4 Risk Prioritisation – The risks identified 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. By mapping the scores for all the risks onto the matrix this provides the overall risk profile for the Council.

Risk Profile

Likelihood

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

Impact

- 2.5 Risk Management Monitoring - The Corporate Risk Register is reviewed on a quarterly basis by management team as part of the Performance Management Framework. Senior management are responsible for ensuring that the risks on the corporate risk register are managed and further mitigating actions progressed. A full review of the risks in the Corporate Risk Register is carried out annually as part of the corporate planning cycle.

3 Corporate Risk Register

- 3.1 The Corporate Risk Register is provided in Annex 1. This incorporates the categories and types of risks facing a local authority at the current time and the key strategic risks alongside and in the context of the Corporate Plan. Work is continuing to identify and plan for any additional mitigations required.

Service Risks

- 3.2 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 Service. Heads of Service are responsible for ensuring that the key risks in their service risk registers are managed.

- 3.3 Service Risk Registers are in the process of being reviewed following the revision of the Corporate Risk Register. This is to consider the Service risks in the context of the key corporate risks identified, to rationalise and better align them.

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 at least 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 The report is for information purposes, so the Council's EQIA process does not need to be applied.

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 can 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.

<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:	18 March 2024

CORPORATE RISK REGISTER														
Risk No	Risk description and categorisation	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	Target Risk Score	Target Risk Score (overall)
C1	Insufficient capacity (staff) to deliver Council services	Inability to recruit and retain staff (to posts already have) Impact of actions taken by major stakeholders to service provision (e.g. HCC)	Competition/limited supply of labour Flexible/homeworking Industrial action	Quality of Council Services affected. Delay in service provision. Increase in complaints etc. Budget strain from using temporary/agency staff.	Organisational Development journey Grow your own - actual or planned Agile working/hybrid working Review of pay policy allowances Use of agency staff	To determine a consistent approach to defining, assessing and measuring capacity	31/12/24	Deputy Chief Executive	CII	CII	CII	Neutral	DII	DII
						Develop structured approach to succession planning and forecasting capacity needs, including consideration of learning & development; training posts in service structures etc.	31/12/24	Deputy Chief Executive						
						Forecast future resource needs - fed from demand forecast. Medium term forecast to be prepared as part of MTFS	31/10/24	Head of Finance & Revenues						
		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 Government support not forthcoming or uncertain	Non compliance with statutory responsibilities. Potential non-compliance with statutory requirements.	Build up reserves in advance to meet need Resource projects - staff and funding New burdens funding	Full costing of staff/fuel etc. for rounds	31/12/24	Head of Environmental Services/ Head of Finance & Revenues	CII	DII	Improving	DII		
						Delivery of depot changes to enable food waste delivery to commence	31/03/25	Head of Environmental Services/ Head of Finance & Revenues						
Actions completed since last update:														
MTFS approved in October 2023. This will always remain an action to mitigate risk and now has a renewal date of October 2024														
Approval of budget to enable depot changes to be undertaken. The action is now updated to show delivery of the changes. New burdens funding has been confirmed for bin / vehicle purchases														

CORPORATE RISK REGISTER																
Risk No	Risk description and categorisation	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	Target Risk Score	Target Risk Score (overall)		
C2	Failure of Internal Governance Arrangements (Managerial / Professional)	Inability to sustain appropriate quality of leadership	Experience and knowledge of staff in leadership positions.	Deterioration in quality of service provision.	Leadership Development Programme is mitigation against poor leadership.	To embed new leadership framework throughout all levels of staff within the Council.	31/03/25	Chief Executive	DII	DII	DII		EII	DII		
			Changes in ways of working and adapting to leading in a more agile environment	Regulatory/legislative breaches resulting in penalties/sanctions	New manager induction programme under development	Developing and embed structural governance training for officers	31/10/24	Head of Legal & Democratic/ Head of Finance & Revenues								
			Abuse of position/allegations re conduct and fraud	Continuing good officer/member relations												
		Governance failings not promptly recognised and identified	Annual Governance Statement (assessment not embedded) Setting an unsustainable budget	Governance failing at TVBC	Regular Statutory Officers meetings with Governance action plan.	Regular Statutory Officers meetings with Governance action plan.	Review updated CIPFA code of practice for Statutory Officers published in March 2024	31/01/25	Statutory Officers	DII	DII		Neutral		EII	
					Special measures imposed	Governance and Risk Management regularly reviewed by Services, senior management and Audit Committee	Political Awareness - development as appropriate for all levels									
					Inappropriate decisions taken (e.g. non-compliance with Contract Standing Orders)	Exercises undertaken to learn from the experiences of other failing authorities	Refresh of recent failures work. Consideration of the Local Authority failures and factoring into the Council's action plans. Refresher training for all staff on governance issues identified from review of failing Councils to minimise complacency. New case studies to be provided									
		Failure to maintain an effective internal control environment	Internal control processes not robustly managed Capacity of Internal Audit team	Failings in governance and internal control not recognised and effectively scrutinised	Qualified opinion in Annual Governance Statement	Internal Audit Team planned review of internal control processes	The Audit Committee to carry out its own review of its effectiveness	To be picked up at Audit Committee Away Day 31/03/24	Head of Finance & Revenues/ Head of Legal & Democratic	DII			Neutral		DII	
					Increase in fraud	Clearly defined Terms of Reference for the Audit Committee	Consideration of independent Member on Audit Committee in accordance with CIPFA best practice.									
						Compliance with IIA standards and annual assessment against these reported to Audit Committee. Robust and reviewed Constitution including Contract Standing Orders and Financial Procedure Rules etc.	Review of Contract Standing Orders in 2024.									
		Failure of decision making processes	Decisions not made at the correct level/correct committee Decision taken by decision maker are incorrect Decisions are based on reports containing inadequate details Undue influence Inexperienced Members	Decisions are ultra vires and open to challenge Poor decisions made Not achieving the most economically advantageous outcome Reputational damage	Standard report template with key headings	Standard report template with key headings	Review of single report template underway	30/06/2024	Head of Legal & Democratic	DII	DII		Neutral		DII	
					Statutory Officer oversight of decision making reports	Detailed and regularly reviewed Scheme of delegations	Equalities Impact Assessment to be updated									
					Effective OSCOM	Professional support for report authors	Report writing training									
			Requirement to submit reports within 5 days of agenda publishing	Requirement to submit reports within 5 days of agenda publishing		31/05/24	Head of Legal & Democratic									
			Reputational damage	Reputational damage	Training provided to Audit Committee Members											

Test Valley Borough Council - Audit Committee - 18 March 2024

Actions completed since last update:
 Annual Governance Statement drafted and presented to the meeting for approval
 Interim review of Contract Standing Orders ahead of wider changes later in 2024
 Ongoing training for Members and officers in governance / decision making processes

CORPORATE RISK REGISTER														
Risk No	Risk description and categorisation	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	Target Risk Score	Target Risk Score (overall)
C3	Inability to set a balanced budget (Economic / Financial)	Inability to set revenue budget	Drop in interest rates / sustained high inflation	Issue of S114 notice	Established process of building reserves for future losses/increased costs	Included in regular review and update of Medium Financial Strategy to ensure forecast budget gaps are known in advance	31/10/24	Head of Finance & Revenues	DII	DII	DII	Neutral	DII	DII
			Loss of major tenants (rental income)											
		Loss of investment income	New government burdens											
		Economic shocks e.g. Ukraine		Ability to generate new income										
Inability to set capital budget	Failure to generate capital receipts	Not able to fully deliver on all aspects of regeneration programmes within planned timeframe	Established process of building reserves for future losses/increased costs		Regular annual review of the capital strategy and forecast balances of capital reserves	28/02/25	Head of Finance & Revenues	CII	CII	CII	Neutral	DII		
	Inability to fund regeneration programmes			Unable to commit to wider capital programme									Approval of financial strategy for regeneration projects	Review of forecast resources earmarked for regeneration compared with actual available resources
Inability to fund AMP	Inflation	Inability to adequately maintain council assets / replace life-expired vehicles and plant	Established process of building reserves for future losses/increased costs		Annual review of Asset Management Plan (AMP) (forecasting, future need) to be presented to Cabinet and Council	31/10/24	Head of Finance & Revenues	DII	DII	DII	Neutral	DII		
	Costs greater than annual contribution to reserves													
Actions completed since last update:														
Medium Term Financial Strategy was approved in October 2023. This action is required annually and a revised date of October 2024 is now included.														
The same applies to the capital strategy which was approved in February 2024. A revised date of February 2025 is included														
The financial strategy for the regeneration programme was approved by Council in February 2024. The focus of the risk now moves to ensuring the receipts and reserves identified become available as forecast														
C4	Inability to fulfil emerging environmental duties and ambitions (Environmental)	Inability to meet Climate emergency commitments.	Funding - unknown funding requirement to deliver	Not achieving objectives of Climate Emergency Action Plan	Climate Emergency Action Plan (CEAP)	To monitor progress and update the CEAP	30/09/2024	Head of Planning Policy & Economic Development	CIII	CIII	CIII	Neutral	DIII	DIII
			Staff resource/skill set for implementation											
		Organisational ambition	Breach of Environment Act	Early funding/ability to start procurement	Re Waste reform - Purchase of vehicle and waste infrastructure	Head of Environmental Services	DIII	DIII	Neutral	DIII				
Cost of change	Capacity to deliver	Inability to make appropriate planning decisions									Mitigation/Provision/Framework to satisfy BNG	Re BNG - Land assessment of own estate re BNG capacity. To consider potential for bringing together SANG, countryside acquisitions and nitrate neutrality	31/03/25	Head of Property & Asset Management/ Head of Planning & Building
Inability to meet the requirements of the Environment Act inc waste reform and Biodiversity Net Gain (BNG)	Workforce skills		Limited guidance (details for BNG from DEFRA/Nat England. Detail (secondary legislation) not expected until summer	- Land purchase - consideration of	- Review own estate potential (ongoing) and other possible options. Any fields suitable for BNG/price etc									
Actions completed since last update:														
The update and refresh of the CEAP is regularly undertaken. The date has been rolled forward in the action plan as part of continuous review.														
Establishment of a climate emergency working group was approved in November 2023. This adds Member oversight to the climate emergency governance.														
Budget approval for infrastructure to enable roll-out of food waste collection has been approved.														

CORPORATE RISK REGISTER														
Risk No	Risk description and categorisation	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	Target Risk Score	Target Risk Score (overall)
C5	Inability to deliver and meet the Corporate Plan priorities and objectives	Insufficient funding available Impact of actions taken by other major stakeholders (e.g. HCC)	Changing needs of communities Population growth and population changes e.g. demographics and aging Policy decisions of other organisations	Inability to meet the needs of the communities	Local Plan - Specific needs met through housing type and infrastructure provision. Keep communities informed as far as can. Forecasting via housing market assessment	Put in place and update Local Plan as per the statutory stages. First stage - consultation on draft.	First stage 31/01/2024	Head of Planning Policy & Economic Development	CII	CII	CII	Neutral	DII	DII
			Partner service provision Officer capacity due to high demand Delivery and access to affordable housing Cost of living Mass migration - Ukraine Rent levels exceeding LHA - affordability of rent		People focused approach should place the Council well to deal with issues that arise e.g. existing community resilience. Corporate action plan is process to focus on the projects, resources and capacity required to deliver on those priorities and informs the Medium Term Financial Strategy New Corporate Plan refers to working in a more placed based way. Structure of Management Team enables a strategic review across Services.	Build on work that has been undertaken with local places to map and understand their priorities, assets and skills needed.	31/12/24	Head of Strategy & Innovation / Head of Community & Leisure	CII	DII		Improving	DII	
Actions completed since last update:														
Local Plan consultation period has started on 6th March														
MTFS was approved in October 2023. The primary focus of the MTFS and Capital Strategy are to prioritise the delivery of the Council's priorities which are set out in the Corporate Action Plan.														
Significant work has been undertaken working with local communities through a series of workshops tailored to six areas across the Council. The action now moves to building on that work.														
C6	Inability to deliver Services in event of a major incident or cyber attack (Managerial / Professional)	Failure of Business Continuity Plans (BCP) Disaster recovery - Failure of IT reciprocal arrangements	Power outages/restrictions Increased risk of cyber attacks Involvement of 3rd parties/contractors hosting systems Personal data held in some systems	Impacts on continuity of critical Council services. 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 Changes to way BCP managed to give more resource Hosting journey to cloud (methods work) Bolstering of skills through training of other officers Cyber response plan and playbooks produced and endorsed by MT	Development of clear roadmap towards hosted systems Undertake external assessment of system cyber resilience strength Back up testing of data accessibility Review/scope what is (or should be covered by BCP (Corporate review) Testing of BCP arrangements for eventuality of systems being lost. Ensuring most data can be accessed remotely Implement staff training programme (awareness for all). Training will be determined by outcomes of testing	Ongoing throughout year	Head of Strategy & Innovation	DI	DI	Neutral		DI	DII
		Failure to comply with duties under Civil Contingency Act	Insufficient resources given to Emergency Plan Maintaining a wide enough pool of sufficiently trained staff	Inadequate response to emergency incidents	Emergency Response Plan in place Take part in local Resilience forum and exercises Improved resilience on single points of failure (resourcing) Ensure staff are sufficiently trained SLA with HCC covering Civil Contingency Act compliance	To review sufficiency of additional emergency planning support arrangements	31/12/24	Deputy Chief Executive/ Head of Legal & Democratic	DII	DII		Neutral	DII	
Actions completed since last update:														
Significant investment of IT resources to ensure system resilience. Work with external contractors to assess system resilience / weaknesses														
Public Services Network Compliance certificate completed in December 2023														
Additional officers trained in cyber security and emergency planning roles, reducing risk of single point of failure. Action now moves to reflecting on sufficiency of new cover arrangements.														

CORPORATE RISK REGISTER														
Risk No	Risk description and categorisation	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	Target Risk Score	Target Risk Score (overall)
C7	Inability to deliver major projects and programmes within planned timescale/budget/scope (Economic / Financial)	Inability to fulfil expectations of the regeneration programme	Affordability Expertise and capacity	Reputational damage Increased costs Non delivery of project outcomes	Regeneration programme risk workshop and on-going monitoring of regeneration-specific risk register. Regeneration Board and governance structure	Review of funding strategy to ensure latest delivery costs can be managed in an efficient manner. Structured review of resource implications of the programme before implementation i.e. the impacts on other Services and ongoing revenue implications. To take forward/plan actions re the outcomes from the regen risk workshop and produce risk register	31/03/25 (and annually updated) 31/03/25 (and annually updated) Ongoing	Head of Finance & Revenues Programme Board (Management Team) Head of Planning Policy & Economic Development	CII	CII	CII	Neutral	DII	DII
Actions completed since last update:														
Funding Strategy approved to cover the delivery of four major projects in Andover and Romsey														
Budget approval for professional fees to develop plans for theatre and Romsey hub. Tender is live for theatre procurement														
Budget approved for additional project support role in regeneration team														
Project documents including risk and issues logs developed for each project														

ITEM 10 **Anti-Fraud and Corruption Policy (including Whistleblowing) – Annual Update**

Report of the Internal Audit Manager

Recommended:

That the update on the Anti-Fraud and Corruption Policy (including Whistleblowing) be noted.

SUMMARY:

This report provides an update on the Council's Anti-Fraud and Corruption Policy (including Whistleblowing).

1 Introduction

- 1.1 The Terms of Reference for the Audit Committee include the monitoring of Council policies on whistleblowing and the Anti-Fraud and Corruption Policy.
- 1.2 The Anti-Fraud and Corruption Policy which includes Whistleblowing is provided in the Annex. The purpose of this policy is to demonstrate the Council's commitment to the prevention, deterrence, detection and investigation of all forms of fraud and corruption.
- 1.3 Fraud and corruption are sensitive and damaging issues which can lead to financial loss, bad publicity and loss of public confidence in the way public money is being used. It is therefore important that the Council has robust systems and procedures in place to ensure that the risk of impropriety is minimised, as far possible, and that where instances do occur, there is a prompt and effective response to them.

2 Anti-Fraud and Corruption Policy (including Whistleblowing)

- 2.1 The Anti-Fraud and Corruption Policy covers the following main areas:
 - (i) Definitions of fraud and corruption.
 - (ii) Roles and responsibilities of Members and Officers.
 - (iii) Anti-fraud and corruption framework.
 - (iv) Responding to allegations and concerns raised internally and externally (Whistle-blowing).
 - (v) Actions to be taken when fraud or corruption is discovered.

2.2 The policy provides definitions of fraud and corruption and the roles and responsibilities of officers and Members. It explains the Anti-Fraud and Corruption Framework including the measures established in the Constitution and the responsibilities for monitoring, investigation and review of Council business, decisions and systems. It also sets out how the response to any allegations and concerns about fraudulent or corrupt activity should be handled and the actions to be taken when fraud or corruption is uncovered.

2.3 There have been no allegations or concerns about fraudulent or corrupt activity raised during 2023-24 to date.

2.4 The policy is provided in the Annex for reference. This was reviewed in March 2024 and no changes have been made as a result.

3 Corporate Objectives and Priorities

3.1 The Anti-Fraud and Corruption Policy (including Whistleblowing) supports the Council's four strategic aims for maintaining and improving quality of life in Test Valley, by ensuring that the risk of impropriety is minimised and that there are systems in place to respond to any allegations should they occur.

4 Consultations/Communications

4.1 The Head of Finance and Revenues (S151 Officer) and Head of Legal and Democratic Services (Monitoring Officer) have been consulted on this policy.

5 Risk Management

5.1 This Anti-Fraud and Corruption Policy gives consideration to the risk of fraud and corruption and the responsibilities for how this risk should be monitored and managed.

6 Resource Implications

6.1 There are no resource implications associated with this report.

7 Equality Issues

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

8 Conclusion

8.1 This report provides an update on the Council's Anti-Fraud and Corruption Policy (including Whistleblowing).

<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:	18 March 2024



**TEST VALLEY BOROUGH COUNCIL
ANTI-FRAUD AND CORRUPTION POLICY including Whistleblowing
(Reviewed March 2024)**

1. Introduction

- 1.1 The purpose of this policy is to demonstrate the Council's commitment to the prevention, deterrence, detection and investigation of all forms of fraud and corruption.
- 1.2 Fraud and corruption are sensitive and damaging issues which can lead to financial loss, bad publicity and loss of public confidence in the way public money is being used. It is therefore important that the Authority has robust systems and procedures in place to ensure that the risk of impropriety is minimised, as far possible, and that where instances do occur, there is a prompt and effective response to them
- 1.3 The policy covers the following main areas:
- Definitions of fraud and corruption
 - Roles and responsibilities of Members and Officers
 - Anti-fraud and corruption framework
 - Responding to allegations and concerns raised internally and externally (Whistleblowing)
 - Actions to be taken when fraud or corruption is discovered

2. Definitions of Fraud and Corruption

- 2.1 Fraud is defined as "The intentional distortion of financial statements or other records by persons internal or external to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain". Fraud is a deliberate act by an individual or group of individuals and is therefore always intentional and dishonest. This includes failure to report any instances of money laundering (please refer to the Council's Anti-Money Laundering Policy).
- 2.2 Internal fraud refers to fraudulent acts undertaken by Council Members and employees. Examples of such fraud would include: falsification of expenses claims, theft of cash and alteration of records to conceal the deficiency, falsification of invoices for payment, failure to account for monies collected, dealing inappropriately with benefits claims of friends or relatives.
- 2.3 It is also worth noting that there may, in some instances, be potential for those in positions of trust within the Authority to perpetrate frauds against third parties. The Authority has responsibility for the integrity of staff employed in such positions of trust.

- 2.4 Procurement of services or goods can be an area particularly open to the potential of fraud and/or corruption. The Council has in place robust Financial Procedure Rules and Contract Standing Orders and it is important that the correct procedures are followed when engaging in new contracts/business.
- 2.5 External fraud is defined as fraud committed against the Authority by persons outside of the organisation. Examples include false statements in benefits applications and applications for grants.
- 2.6 Corruption is defined as, "The offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person". This would normally mean a payment, favour or gift given to a Member or Officer as a reward, or an incentive, to that person for any actions (or inactions) contrary to the proper conduct of their duties. Please also refer to the Council's Anti-Bribery Policy.
- 2.7 Examples of areas where corruption can occur include tendering and awarding of contracts, appointment and reward of outside consultants, awarding of permissions, planning consents and licences.
- 2.8 Types of inducement include cash, 'free' holidays, 'free' professional services/advice, provision of goods or materials, 'free' entertainment such as tickets for sporting events.
- 2.9 The Fraud Act 2006 states that the offence of Fraud can be committed in 3 ways:
- *Fraud by False Representation*
A person is in breach of this section if he/she: **Dishonestly** makes a false representation and **Intends**, by making the representation, to make a gain for himself or another, or to cause loss to another or to expose another to a risk of loss Note: the gain or loss need not have taken place.
 - *Fraud by failing to disclose information*
A person is in breach of this section if he or she: **Dishonestly** fails to disclose to another person information which he/she is under legal duty to disclose and **Intends**, by failing to disclose the information, to make a gain for himself or another, or cause loss to another or to expose another to a risk of loss.
 - *Fraud by abuse of position*
A person is in breach of this section if he/she: **Occupies a position** in which he/she is expected to safeguard, or not to act against, the financial interests of another person, **Dishonestly** abuses that position and **Intends**, by means of the abuse of that position to make a gain for himself or another or to cause loss to another or to expose another to a risk of loss. Note: A person may be regarded as having abused their position even though their conduct consisted of an omission rather than an act.

Example of an omission could be an employee who fails to take up the chance of a crucial contract in order that an associate or rival company can take it up instead at the expense of the employer.

3. **Roles and Responsibilities**

3.1 **Council Members**

Members have a duty to ensure that Council assets are safeguarded from fraud and abuse and to ensure that the Council's powers, duties and responsibilities are exercised in an open, fair and proper manner to the highest standards of probity. These issues need to be borne in mind when considering reports, making decisions and scrutinising the Council's activities. Members should endorse and support all policies and measures taken to prevent, deter, detect and resolve instances, or suspected instances, of fraud and corruption throughout the Authority. Members have a personal responsibility to abide by the Council's constitution, in particular Codes of Conduct.

3.2 **Statutory Officers**

The Chief Financial Officer (Head of Finance and Revenues) has been delegated, through the Council's Financial Procedure Rules, the powers to control and regulate the Council's finances. These include the promotion of systems and practices to minimise the risk of fraud and corruption.

An important part of the control framework is the maintenance of an adequate and effective internal audit of the Council's accounting records and of its system of internal control, as required by the Accounts and Audit Regulations 2011. The Head of Finance and Revenues (as section 151 officer or "Chief Financial Officer") should be provided with sufficient resources to allow him to be able to fulfil his responsibility to ensure the proper administration of financial affairs. The Monitoring Officer's (Head of Legal and Democratic Services) duties include ensuring that the Constitution is up to date, that decisions are made fairly and lawfully, establishing and providing support to the work of the Standards regime and maintaining registers of Members' Interests and Gifts and Hospitality. The Council has a statutory duty to provide the Monitoring Officer with sufficient resources to perform this enhanced role.

3.3 **Managers**

Managers are responsible for ensuring there are adequate measures to prevent and detect fraud and corruption within the areas under their control. Achievement of this is assisted by:

- compliance with Council policies, rules and regulations;
- ensuring staff understand their responsibilities through adequate supervision, written procedures and job descriptions;
- responding positively to points raised and advice given by internal and external audit.

Management need to be vigilant in guarding against fraud and corruption, be aware of any circumstances which may indicate that there may be a problem and report any such suspicions to the Head of Finance and Revenues or the Internal Audit Manager for an independent investigation or advice. In carrying out their responsibilities, all managers (and staff) should be conscious of the fact that they are spending public money collected through taxes. This provides an extra responsibility not only to spend it economically and effectively but also fairly.

3.4 Employees

Staff have a duty to make management aware of any concerns they have about the conduct of Council affairs or the use of Council assets and resources. Any matters raised by them should be taken seriously and properly investigated. In the event that a matter raised does not turn out to be one of concern then no action should be taken against the member of staff unless the member of staff was shown to be acting maliciously and this would be dealt with through the Council's disciplinary procedure.

The Council has a Confidential Reporting Code for Employees, following the introduction of the Public Interest Disclosure Act 1998 which protects "whistleblowers" from unjust recrimination where they have an honest and reasonable suspicion of malpractice and they act on it. The Council, in the interests of probity and good local government, wishes to encourage staff to raise concerns so that they can be properly investigated.

3.5 Internal and External Auditors

Internal Audit

Internal Audit have an important role in assisting management in the prevention and detection of fraud by:

- Independently reviewing systems, procedures and controls to ensure that there are adequate safeguards to prevent, deter and detect fraud and corruption; particular attention is paid to the review of contracts and computer systems where there is potentially a significant risk
- Through specific audits and testing of systems, identifying areas of concern
- Responding to requests for advice from managers on controls to put in systems
- Independently investigating suspected frauds and irregularities and reporting conclusions to management and, where necessary, the Police
- Producing, and advising on the production, of rules, regulations and policies which deter fraud and corruption.

The Council's Financial Procedure Rules give Internal Audit its powers of access to all relevant records, to require explanations from Members and Officers of areas of concern and to be informed of all suspected fraud and irregularities across the Council.

The Council takes part in the National Fraud Initiative (NFI) data matching exercises. This process involves providing various datasets held by the Council to the Cabinet Office via an online portal which interrogates the data and identifies potential areas of fraud. A simple example could be where the electoral register shows two adults registered to vote at an address but Council Tax records show a single person discount being applied. The output of the NFI exercises offers indications of where fraud may be occurring; however each potential match requires individual investigation.

External Audit

External Auditors certify that the Authority's accounts represent a true and fair view of the Council's financial position. In reaching this conclusion, they must satisfy themselves that control systems are sound and that measures are being taken to minimise the chances of fraud and corruption. They have limited time and resources to carry out this work and consequently there is a co-operation with the Council's Internal Auditors who are able to examine the Council's activities in more detail. In serious cases of fraud and corruption, External Audit have wide powers to investigate and act should the need arise.

Benefits Team

The payment of benefits is an area where most external fraud is perpetrated against local authorities nationally. The Council has a legal duty to administer a benefits service to all those who qualify. At the same time, there is a responsibility to ensure that benefit payments are only made to those who have a genuine entitlement. Therefore, the Council's role is to try and stop fraud from taking place, catch those who are making false claims and reduce the number of fraudulent claims made each year.

The Council works closely with the Department for Work and Pensions (DWP) who operate a Single Fraud Investigation Service responsible for:

- Prevention and detection of fraud and error
- Prosecution of those people found to have defrauded the system

The Single Fraud Investigation service now investigates all fraud for Housing Benefit, Income Support, Jobseekers Allowance, Employment and Support Allowance, Tax Credits and Universal Credit.

4. Anti-Fraud and Corruption Framework

4.1 Constitution

The Council's Constitution includes a number of measures which can assist in the prevention or detection of fraud and corruption, it is perhaps worth highlighting the following examples:

- **Scrutiny** - checks and balances are built into the Council's structure e.g. Overview and Scrutiny committees review Cabinet decisions.
- **Openness** - members of the public can attend meetings and participate in them within pre-defined limits, they have access to Council agendas and minutes (apart from areas exempted by law), they can inspect the Council's accounts and raise objections with External Audit.
- **Delegations** - the extent of powers delegated to Committees, individual Members and Council Officers is laid down.
- **Conduct** - The General Purposes Committee oversee and advise on issues of Officer conduct. Codes of Conduct are in force for Members and Officers generally and for specific areas such as dealing with Planning issues.
- **Disclosure** - registers of interests are maintained for Members and Officers; similarly gifts and hospitality registers are kept. Members and Officers are required to declare any interests in matters they are dealing with and, where appropriate, not be involved in decisions or processing matters in which they have an interest. Officers employed within Benefits administration and internal audit are required to provide a signed declaration of interest in respect of the payment of benefits.
- **Regulation** - rules such as , Contract Standing Orders and Financial Procedure Rules promote the carrying out of Council business in an open, fair and honest manner.
- **Vigilance** - the Confidential Reporting Code encourages employees to raise issues of concern and requires these to be dealt with in a proper manner.

4.2 Monitoring, Investigation and Review

Those with responsibility for the monitoring, investigation and review of Council business, decisions and systems include:

- **Statutory Officers** - the Chief Financial Officer and Monitoring Officer are responsible for ensuring that the conduct of the Council's business is well regulated, that policies and regulations are kept up to date and monitored and that where there are breaches, these are promptly investigated and action taken.
- **Internal Audit** - their role is to review financial systems across the Authority and advise on controls which can minimise the chances of fraud and corruption occurring. Where irregularities do occur, these will be investigated in an objective and timely manner and progress reported to management and, where appropriate, Council Members in accordance with Financial Procedure Rules and section 5 of this Policy.
- **External Audit** – their role is to promote anti-fraud and corruption practices within local government generally and at a local level they review the preventative measures put in place at each Council.
- **Benefits Team** - the Council works closely with the Department for Work and Pensions (DWP) who operate a Single Fraud Investigation Service.

5. Response to Allegations and Concerns

- 5.1 Allegations and concerns about fraudulent or corrupt activity may come from different sources e.g.
- Members of the public, sometimes anonymously
 - Other local authorities
 - Council Members
 - Council managers or staff
 - Resulting from internal or external reviews
 - From the work of the Benefits Team
 - Data matching exercises undertaken as part of the National Fraud Initiative.
- 5.2 Wherever these concerns come from, they must be treated seriously and confidentiality will be respected as far as possible. A thorough investigation will be made of all concerns but the level of resources applied to this will be dependent on the nature of the concern e.g. sums or resources involved, sensitivity of the area, source of concern, evidence provided or available, risk inherent in that area. Investigations may be carried out by Internal Audit or a Head of Service independent of the alleged offence.
- 5.3 For cases of internal fraud, investigations should be closely managed and documented. Appropriate Council Members and managers, as referred to in Financial Procedure Rules, will be kept informed of progress. If the matter may involve disciplinary action against a member of staff, the HR Manager will be informed. If Police action is required, the Leader of the Council, Portfolio Holder, Chief Executive and Monitoring Officer will be consulted or informed.
- 5.4 For cases of external fraud, evidence needs to be gathered which is sufficient to justify actions to be taken e.g. withdrawal of benefit payment, referral to Police. Where external fraud involves significant sums of money, is likely to be sensitive or may cause embarrassment to the Authority, the lead investigatory officer will inform as soon as possible the Monitoring Officer and the S151 Officer and then the Chief Executive. The Chief Executive will inform the Leader of the Council and Portfolio Holder.
- 5.5 At all times confidentiality must be maintained and information disclosed only to those who need to know it, in order not to prejudice any disciplinary or criminal action.
- 5.6 There is a confidential process to support Whistleblowing on any concerns relating to alleged fraudulent or corrupt practices that a person believes may be taking place within the Council. Details of the process can be found on the Council's website and intranet under 'Speak Up' which provides clear guidance on how to contact Internal Audit and other routes of reporting suspicions or concerns.

6. Actions to be Taken when Fraud and Corruption is Uncovered

- 6.1 Where there is sufficient evidence of fraud or corruption, or there is strong suspicion but internal investigations are unable to obtain further evidence required, the Police should be involved, where it is in the Council's/Public's interests.
- 6.2 Determination of the "Council's/Public's interests" will include factors such as the sums or resources involved, the strength of the evidence obtained or available, the potential cost to the Council of pursuing the matter, the sensitivity of the area concerned. Referral to the Police will be the normal course of action unless there are good reasons not to do so.
- 6.3 The decision to refer cases to the Police (excluding Housing Benefit cases) will be made as follows:

Person Involved	Decision to refer to Police
External parties (not Housing Benefit cases) and Officers up to and including Business Unit Manager level	Two from Head of Finance and Revenues, Head of Legal and Democratic Services, Head of Service concerned.
Head of Service and Deputy Chief Executive	Chief Executive and either Head of Finance and Revenues or Head of Legal and Democratic Services.
Chief Executive	Leader of the Council, Heads of Finance and Revenues and Legal and Democratic Services
Council Member	Chief Executive and either Head of Finance and Revenues or Head of Legal and Democratic Services

The appropriate Portfolio Holder should be kept informed of decisions made, whether these result in referrals to the Police or not.

- 6.4 Where involvement of the Police is not appropriate, action must still be taken. This may involve disciplinary action including dismissal against members of staff, recovery of any sums of money or resources misappropriated. All actions in this regard will be undertaken in accordance with the Council's Disciplinary Policy.
- 6.5 Wherever practicable, the Authority should attempt to recover sums of money it may have lost through fraudulent or corrupt activity.
- 6.7 At the conclusion of any fraud or corruption investigation, systems and procedures should be reviewed and any lessons learned from the case, whether or not there was sufficient evidence to prove any wrongdoing.

ITEM 11

Accounting Policies 2023/24

Report of the Head of Finance and Revenues

Recommended:

That the Accounting Policies, attached as the Annex to the Statement of Accounts 2023/24, be approved.

SUMMARY:

- The Council is required to prepare an Annual Statement of Accounts in accordance with proper accounting practices.
- The Accounting Policies set 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 2023/24 are without change from those applied in 2022/23.
- 2.2 The policies are in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and the Service Reporting Code of Practice 2023/24 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 Any proposed changes to the Accounting Policies 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.

<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:	Jenni Carter	Ext:	8236
File Ref:	N/A		
Report to:	Audit Committee	Date:	18 March 2024

Statement of Accounts 2023/24

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 2023/24 financial year and its position at the year-end of 31 March 2024. 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 2023/24 ('the Code') and the Service Reporting Code of Practice 2023/24 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.

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.