

Public Document Pack



NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Thursday, 22nd June, 2017 at 2.30 pm * <u>Please note start time</u>
Place	Chute Room, EII Court South, The Castle, Winchester
Enquiries to	members.services@hants.gov.uk

John Coughlan CBE
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION

This meeting may be recorded and broadcast live on the County Council's website. The meeting may also be recorded and broadcast by the press and members of the public – please see the Filming Protocol available on the County Council's website.

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence received.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to the circumstances described in Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Non-Pecuniary interest in a matter being considered at the meeting should consider whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. MINUTES OF PREVIOUS MEETING (Pages 5 - 8)

To confirm the minutes of the previous meeting held on 2 February 2017.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

6. ROLE OF MEMBERS ON THE AUDIT COMMITTEE (PRESENTATION)

To receive a presentation from the Director of Corporate Resources – Corporate Services on the role of members on the Audit Committee.

7. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS (Pages 9 - 18)

To consider a report of the Director of Culture, Communities and Business Services and Director of Transformation and Governance – Corporate Services on the instances the County Council has used its investigatory powers in the last financial year.

8. INTERNAL AUDIT CHARTER 2017-18 (Pages 19 - 32)

9. INTERNAL AUDIT PLAN 2017-18 (Pages 33 - 56)

To consider a report of the Director of Corporate Resources – Corporate Services providing an overview of the County Council's Internal Audit Plan.

10. CHIEF INTERNAL AUDITOR'S ANNUAL REPORT & OPINION 2016-17 (Pages 57 - 74)

To consider a report of the Director of Corporate Resources – Corporate Services Services presenting the annual report and opinion for 2016-17.

11. ANNUAL TREASURY OUTTURN REPORT 2016/17 (Pages 75 - 88)

To consider a report of the Director of Corporate Resources – Corporate Services giving details on treasury activity during 2016/17.

12. ANTI-MONEY LAUNDERING POLICY (Pages 89 - 104)

To consider a report of the Director of Corporate Resources – Corporate Resources regarding the County Council's approach to preventing money-laundering and seeking approval for an Anti-Money Laundering Policy.

13. ANNUAL GOVERNANCE STATEMENT (Pages 105 - 122)

To consider a report of the Director of Transformation and Governance and the Director of Corporate Resources – Corporate Services seeking approval to the Annual Governance Statement.

14. HAMPSHIRE COUNTY COUNCIL ANNUAL AUDIT AND CERTIFICATION FEES LETTER 2017/18 (Pages 123 - 126)

To receive the annual audit and certification fees letter for 2017/18.

15. HAMPSHIRE PENSION FUND ANNUAL AUDIT FEE LETTER FOR 2017/18 AND PLAN (Pages 127 - 146)

To receive the annual audit fee letter for 2017/18 and Plan for the Hampshire Pension Fund.

16. MINUTES OF THE PENSION FUND AND BOARD MEETINGS (NON-EXEMPT)

To receive the minutes of the Pension Fund and Board meetings

a) 16 December 2016 (Pages 147 - 152)

b) 31 January 2017 (Pages 153 - 156)

17. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

18. MINUTES OF THE PENSION FUND PANEL AND BOARD MEETINGS (EXEMPT)

To receive the exempt minutes of the Pension Fund Panel and Board meetings.

a) 16 December 2016 (Pages 157 - 158)

b) 31 January 2017 (Pages 159 - 162)

ABOUT THIS AGENDA:

On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.

ABOUT THIS MEETING:

The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact members.services@hants.gov.uk for assistance.

County Councillors attending as appointed members of this Committee or by virtue of Standing Order 18.5; or with the concurrence of the Chairman in connection with their duties as members of the Council or as a local County Councillor qualify for travelling expenses.

AT A MEETING of the AUDIT COMMITTEE of the COUNTY COUNCIL held at The Castle, Winchester on 2 February 2017.

PRESENT:

p Councillor Keith Evans (Chairman)

p Vaughan Clarke (V. Chairman)	p Mark Kemp-Gee
p Adrian Collett	p Floss Mitchell
a Roger Huxstep	p Andy Moore
a Tony Hooke	a Tom Thacker

Adam Swain from Ernst and Young also attended this meeting.

195. **BROADCASTING ANNOUNCEMENT**

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded and to the possible use of those images and recording for broadcasting purposes. This would not apply to the confidential part of the meeting.

196. **APOLOGIES**

Apologies were received from Councillor Thacker.

197. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

No declarations were made at the meeting.

198. **MINUTES**

The minutes of the meeting held on 1 December 2016 were agreed as a correct record and signed by the Chairman.

199. **DEPUTATIONS**

No deputations were received for this meeting.

200. **CHAIRMAN'S ANNOUNCEMENTS**

No announcements were made on this occasion.

201. **INFORMATION COMPLIANCE – USE OF REGULATED INVESTIGATORY POWERS**

The Committee received and noted a presentation given by the Director of Transformation and Governance – Corporate Services (Item 6 in the Minute Book) on the number of authorisations during 1 April 2016 – 31 March 2017.

202. **RISK MANAGEMENT ARRANGEMENTS**

The Committee considered a report of the Director of Transformation and Governance – Corporate Services (Item 7 in the Minute Book) giving an update on the key aspects of the County Council's risk management arrangements.

The Director informed the Committee that the County Council's risk management arrangements were designed to support an environment in which risk taking, innovation and exploitation of opportunities were encouraged within a well managed environment, through a series of departmental and corporate risk registers. These registers were overseen by a Risk Management Board and were currently being reviewed as the County Council moves from its Transformation T17 to T19 programmes.

During discussion, Members requested that both these registers be presented to a future meeting for the Committee to review.

RESOLVED:

1. That the contents of the report be noted along with the risk management arrangements in place across the County Council.
2. That a report on the County Council's Risk Registers and their contents be submitted to a future meeting for consideration.

203. **THE CORPORATE GOVERNANCE FRAMEWORK**

The Committee considered a report of the Director of Transformation and Governance – Corporate Services (Item 8 in the Minute Book) seeking formal adoption of the revised Code of Corporate Governance into the County Council's Corporate Governance Framework.

The Director highlighted key aspects of the report including the revised CIPFA guidance issued in 2016, which took into account the current challenges facing Local Government. It was noted that the Code, if approved, would apply to the County Council's Annual Governance Statement for 2016/17 onwards.

RESOLVED:

That the revised Code of Corporate Governance for Hampshire County Council be approved.

204. **TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY
2017/18 TO 2019/20**

The Committee considered a report of the Director of Corporate Resources – Corporate Services (Item 9 in the Minute Book) detailing the County Council’s Treasury Management Strategy and Investment Strategy for 2017/18 to 2019/20.

The Director summarised the main points of the report including that reserves and balances were expected to reduce over the forecast period due to the anticipated funding of the capital programme and use of the Grant Equalisation Reserve as part of the County Council’s financial strategy. Members were also advised on the recommendation being put to Cabinet on the addition of a further £0.5m to the Investment Risk Reserve.

RESOLVED:

That the Committee noted the following recommendations being made to Cabinet:

- i. Treasury Management Strategy and Annual Investment Strategy for 2017/18 (and the remainder of 2016/17) be noted, including:
 - Prudential Indicators for 2017/18, 2018/19 and 2019/20 – Annex C
 - Minimum Revenue Provision (MRP) Statement – Annex D
- ii. That authority is delegated to the Director of Corporate Resources to manage the Council’s investments according to the risk assessment process in the Investment Strategy as appropriate to most effectively manage the Council’s investments
- iii. The addition of a further £0.5m to the Investment Risk Reserve created in the County Council’s accounts in the Treasury Management Strategy 2015/16 as protection against the irrecoverable fall in value of any investments.

205. **ANNUAL AUDIT PLAN FOR 2016/17**

The Committee received a report on the Annual Audit Plan for 2016/17 (Item 10 in the Minute Book). Members asked a number of questions and subsequently noted the contents of the Plan.

206. **MINUTES OF THE PENSION FUND PANEL AND BOARD MEETING
– 4 NOVEMBER 2016 (LESS EXEMPT MINUTES)**

The Committee received and noted the minutes of the Pension Fund Panel and Board meeting held on 4 November 2016 (less exempt minutes) (Item 11 in the Minute Book).

207. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the press and public be excluded from the meeting as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, being information relating to the financial or business affairs of any particular person (including the authority holding that information) which should not be disclosed for the reasons set out in the minutes.

208. **EXEMPT MINUTES OF THE PENSION FUND PANEL AND BOARD MEETING
- 4 NOVEMBER 2016 (EXEMPT MINUTES)**

The Committee received and noted the exempt minutes of the Pension Fund Panel and Board meeting held on 4 November 2016 (exempt minutes) (Item 13 in the Minute Booke).

Chairman

HAMPSHIRE COUNTY COUNCIL

Report

Committee:	Audit Committee
Date:	22 June 2017
Title:	Information Compliance - Use of Regulated Investigatory Powers
Report From:	Director of Culture, Communities and Business Services and Director of Transformation and Governance – Corporate Services

Contact name: Julie Chambers – Trading Standards Team Manager (Legal & Compliance) and Peter Andrews – Corporate Risk Manager

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peter.andrews@hants.gov.uk

1. Summary

- 1.1. The purpose of this report is to provide the Audit Committee with information on the instances that the County Council has used its investigatory powers in the last financial year, as required by the Code of Practice issued by the Home Office. It is also to provide assurance that the County Council uses its surveillance powers in a lawful and proportionate way.
- 1.2. The level of use of surveillance powers for 2016/17 is very low, continuing the trend seen in recent years.

2. Contextual Information

- 2.1. The County Council operates a strict control policy which ensures that only authorised surveillance takes place in accordance with the Regulation of Investigatory Powers Act 2000 (RIPA).
- 2.2. In June 2016 a report was presented to the Committee detailing the County Council's use of surveillance powers in 2015-2016. This report (in addition to any quarterly reports) presents information for the period 2016-2017. The last quarterly report to this Committee was 2 February 2017.
- 2.3. All applications for covert surveillance activity are coordinated through the County Council's Trading Standards Service (Legal and Compliance Team) as per the current County Council's RIPA policy. Only one senior officer within that service can act as authorising officer for the whole of the County Council. The responsibility for the governance of the Council's use of surveillance powers rests with the Council's Monitoring Officer.

- 2.4. In addition, there is a legal requirement for judicial approval, through a magistrate, of all authorisations under RIPA obtained by local authorities in accordance with the provisions of the Protection of Freedoms Act 2012. Since 1 November 2012 where Hampshire County Council has sought the required judicial approval of surveillance activity, it has been granted.
- 2.5. The County Council's use of surveillance powers is regularly subject to external inspection, by both the Office of the Surveillance Commissioner and the Interception of Communication Commissioner's Office. In his regulatory function, the Assistant Surveillance Commissioner reviews the County Council's use of directed surveillance, covert human intelligence source and CCTV systems under the Regulation of Investigatory Powers Act. In his last report in January 2015, the Assistant Surveillance Commissioner indicated his satisfaction with the County Council's application of its covert activities arrangements. He expressed that the County Council has '*a generally sound RIPA structure, policy and procedures and committed senior management*', and has recommended some changes for implementation for the future, which have been accepted, to make the County Council's procedures more robust and stand up to scrutiny.
- 2.6. The Trading Standards Service has adopted the Intelligence Operating Model (IOM) as a means of identifying suspicious activity for further investigation and, thus ensuring resources are used efficiently. The introduction of the IOM has contributed towards the decline in recent surveillance activity as the nature of investigations' identified have not warranted such techniques being used.
- 2.7. A number of changes to the way that local authorities are permitted to operate the powers within RIPA were made as part of the Protection of Freedoms Act, and those changes came into force on 1 November 2012. These restrict the use of such powers to the investigation of serious crime. This did not effect the County Councils use of these powers as in practice it already restricted its use of surveillance to these areas, for example, the sale of counterfeit goods, and alcohol and cigarettes to children.
- 2.8. Officers of the County Council's Trading Standards Service ensure that surveillance efforts are targeted towards protecting those who are being cheated by businesses that trade fraudulently or, unfairly treated by businesses that act with gross negligence towards their customers; particularly young, vulnerable or elderly customers. Such work is often done in response to complaints from members of the public, and in conjunction with the Police and UK Border Agency.
- 2.9. It should be noted that the use of surveillance is not the totality of any criminal investigation, but a small part of it, and that criminal investigations may not complete their passage through the criminal court process for many months, if not years after the surveillance activity has ceased.
- 1.1. The principal reasons for the use of surveillance are for prevention and detection of crime and not for criminal proceedings. As such, conviction rates, although excellent, are not the only measure of success (different

methods of disposal such as letters of written warning, Simple Cautions and website takedowns are also justifiable indicators of RIPA usage).

The following table gives an indication of the results from the use of surveillance in the fight against counterfeit goods:

Table A

Year	Written Warnings	Convictions		Value of Fake Goods Seized in Year
		Simple Cautions	Prosecutions ¹	
2008-2009	6	5	2	£92,945
2009-2010	17	4	1	£87,790
2010-2011	15	3	8	£38,550
2011-2012	2	0	7	£38,750
2012-2013	1	0	5	£138,595
2013-2014	3	0	5	£149,195
2014-2015	0	0	5	£5,890
2015-2016	0	1	9	£80,835
2016-2017	1	0	2	0
Total				£ 632,550

2.10. The approvals for surveillance for the period of April 2016 to March 2017 are shown in Appendix 1.

3. Value for Money

3.1. In the period of April 2016 to March 2017 all RIPA activity has been conducted by the Trading Standards Service which operates the Intelligence Operating Model as a means of directing resources towards area of most harm and detriment being identified. The appropriate methodology for dealing with such investigations is individually assessed accordingly to the circumstances and may utilise a variety of enforcement techniques; of which one may be surveillance. Having a range of enforcement techniques available ensures that only those which are necessary and proportionate are used and, accordingly are not used just because they can. Where there is no need to use surveillance, isn't conducted.

3.2. It should also be borne in mind that surveillance activity of the nature governed by the RIPA framework would ordinarily, although not exclusively, occur in the earlier stages of any investigation. Due to the complex nature of some investigations the end result, in terms of any outcome, may not be seen for many months and usually not in the same financial year. This can be seen in the figures for 2016-2017 in Table A.

¹ Subject to caveat that not all criminal proceedings will have completed and will include convictions and proceedings which may still be active

3.3. Whilst the number of authorisations for RIPA surveillance activity has dropped in recent years, this cannot be used as an indication of likely future use and as such, it is appropriate to ensure that future enforcement capability remains unaffected in order to ensure that the authority remains as efficient and effective as it can be.

4. Continued use of Surveillance Powers

4.1. In order to continue to be able to use its surveillance powers under the Regulation of Investigatory Powers Act (RIPA), the County Council must have a formal approved Policy on its use. This Policy must be reviewed and approved on an annual basis. The County Council's Policy on Surveillance (2016-2017) was presented and approved by the Executive Member for Policy and Resources in September 2016. A Policy for use in 2017/18 will be presented to the Executive Member for Policy and Resources in September 2017.

5. Use of Camera Systems

- 5.1. Although not covered under the Regulation of Investigatory Powers Act (RIPA) and subject to different regulations, the use of camera systems is also a form of surveillance. This part of the report provides the assurance that the County Council operates any such systems in a proportionate and lawful way.
- 5.2. The County Council does not operate the large scale high street CCTV monitored systems that may be found in a District or Unitary Authority, however, the Council does own and operate a small number of CCTV, ANPR (vehicle number plate recognition) and other camera systems in a variety of locations and for a number of purposes.
- 5.3. A Surveillance Camera Code of Practice has been introduced under the Protection of Freedoms Act 2012 which applies to the use of surveillance camera systems that operate in public places, regardless of whether or not there is any live viewing, or recording of images or information or associated data. The County Council is required to comply with the provisions of the Code.
- 5.4. The use of camera systems by the Council is subject to compliance with its Policy on the Use of Camera Systems, which was approved by the Council's Risk Management Board. This Policy contains the very latest guidance from the Surveillance Camera Commissioner.
- 5.5. The Policy provides a proportionate and common sense approach to meeting the regulatory standards and reassure the public that surveillance cameras in public places operated by Hampshire County Council are there to protect and look after them – rather than look at them – and are operated in a way which is proportionate, effective in meeting a stated purpose and transparent.
- 5.6. The County Council's use of camera systems is inspected and regulated by the Office of the Surveillance Commissioner.

6. Finance

- 6.1. This report will have no effect upon the budgetary position of Hampshire County Council.

7. Performance

- 7.1. The recommendation sought ensures that the County Council continues to comply with the statutory Codes of Practice under RIPA.

8. Conclusions

- 8.1. The County Council recognises that the use of covert surveillance as part of its investigatory activities may cause concern to the public and that it has a responsibility to ensure that its surveillance powers continue to be exercised appropriately and proportionately. It therefore has a robust process for authorisation and monitoring of all surveillance activities and only uses them in relation to the prevention and detection of crime; and where it is lawful, necessary and proportionate to do so.
- 8.2. Additionally, any activities are reviewed and the Policy on Surveillance is renewed every year, which is approved by the Executive Member for Policy and Resources.

9. Recommendations

- 9.1. That the Audit Committee notes the contents of this report and that the County Council's surveillance powers continue to be exercised appropriately and proportionately.
- 9.2. The Audit Committee is also invited to consider the County Council's use of surveillance powers for the previous financial year and to provide the Executive Member for Policy and Resources with assurance that the County Council is operating its powers in a lawful and proportionate manner. Furthermore, the Audit Committee is invited to assure him of the continued use of surveillance powers by the County Council.

9.3. CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	yes
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes
Corporate Improvement plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

2.1. Race and equality impact assessment has been considered in the development of this report and no adverse impact has been identified

3. Impact on Crime and Disorder:

3.1. The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decision it makes on the prevention of crime. The County Council is only able to lawfully carry out covert surveillance activity on the grounds of prevention and detection of crime and disorder. By complying with RIPA and the statutory Codes of Practice this activity will be carried out without unlawfully contravening the requirements of the European Convention on Human Rights and the Human Rights Act 1998. All activity under RIPA will therefore assist the County Council, where it is both necessary and proportionate to do so, in its aim to prevent and detect crime.

4. Climate Change:

4.1. How does what is being proposed impact on our carbon footprint / energy consumption?

The activities reported within this report have no effect on climate change

4.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

The activities reported within this report have no effect on climate change

APPENDIX 1 - Number of Authorisations by Quarter (1 April 2016 – 31 March 2017)

Direct Surveillance

2019-17 Quarter	Purpose of Surveillance			Description of "other"
	C'feit Goods	Under Age Sales	Other	
1	0	0	0	
2	0	0	0	
3	0	0	0	
4	0	0	0	
Total -	0			

**Covert Human Intelligence Source
(CHIS)**

Quarter	Purpose of Surveillance		
	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3	0	0	0
4	0	0	0
Total -	0		

Communications Data

Quarter	Number of Applications	Number of Specific Notices	Offences related to:
1	2	13	Fraud;doorstep crime
2	0	0	
3	0	0	
4	2	tbc	Fraud
Total -	4		

Definitions:

Directed Surveillance - An authorisation for Directed Surveillance will relate to an activity and, must be done in connection with an investigation and detection of crime or disorder e.g. the person is not aware surveillance is taking place and can be done using cameras, videos

CHIS - An authorisation is required where a person is required to covertly/secretly form a 'relationship' with the person/business under investigation for the purpose of obtaining information to further a criminal investigation e.g., face to face conversations, emails, telephone calls.

Communications - this is where a request can be made to a telecommunications supplier for subscriber data and service use data (not content) **and** only in relation to the prevention and detection of crime or disorder e.g. who is internet domain registered to, who is the subscriber to a particular telephone number.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	22 June 2017
Title:	Internal Audit Charter 2017-18
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Neil Pitman

Tel: 01962 845139

Email: Neil.pitman@hants.gov.uk

1. Executive Summary

1.1. The purpose of this paper is to present the Internal Audit Charter 2017-18 to the Audit Committee in accordance with the requirements of the Public Sector Internal Audit Standards, as the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

2. Contextual information

2.1. The Accounts and Audit (England) Regulations 2015 state:

‘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’

2.2. The Public Sector Internal Audit Standards (attribute standard 1000) require that all internal audit activities maintain an ‘internal audit charter’.

2.3. The charter is a formal document that defines the internal audit activity’s purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

2.4. The internal audit charter establishes internal audits position within the organisation including:

- Recognising the mandatory nature of the Public Sector Internal Audit Standards;
- Defining the scope of internal audit responsibilities;
- Establishing the responsibilities and objectives of internal audit;

- Establishing the organisational independence of internal audit;
- Establishing accountability and reporting lines (functional and administrative);
- Setting out the responsibilities of the board and the role of statutory officers with regard to internal audit;
- Arrangements that exist with regard anti fraud and anti corruption;
- Establishing internal audit rights of access;
- Defining the terms 'board' and 'senior management' for the purpose of internal audit; and
- Arrangements in place for avoiding conflicts of interest.

2.5. In accordance with the Standards the internal audit charter should be reviewed annually (minimum) and approved by senior management and the board.

3. Recommendation(s)

3.1. That the Audit Committee approve the Internal Audit Charter 2017-18

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	no
Maximising well-being:	no
Enhancing our quality of place:	no
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because: 'Board' approval of the Internal Audit Plan, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards	

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>
Accounts & Audit (England) Regulations 2015	April 2015

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;

Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;

Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals within this report.

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime, however internal audit work is planned to ensure that controls are in place to minimise the risk of fraud and corruption against the County Council.

3. Climate Change:

How does what is being proposed impact on our carbon footprint / energy consumption? *No specific changes*

How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? *No specific proposals affecting adaptation to climate change*

Internal Audit Charter

Introduction

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

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

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

Mission and Core Principles

The IPPF's overarching 'Mission' for internal audit services is:

'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'

The 'Core Principles' that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement

Authority

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

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

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2016 [the Standards].

Purpose

The County Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the County Council that these arrangements are in place and operating effectively. The County Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

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

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

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

Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Hampshire County Council lies with the Director of Corporate Resources, as the authority's Chief Finance Officer (S151 Officer).

For the County Council, internal audit is provided by the Southern Internal Audit Partnership.

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

Definitions

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

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

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

Position in the organisation

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

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

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

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

Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Director of Corporate Resources, will provide the Chief Internal Auditor with the resources necessary to fulfil the County Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

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

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

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

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

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

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

Independence and objectivity

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

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

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

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

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

To ensure the independence of the Chief Internal Auditor is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit, the Chief Executive will both countersign and contribute feedback to the performance appraisal of the Chief Internal Auditor. Feedback will also be sought from the Chair of the Audit Committee.

Due professional care

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

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

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

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

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

Access to relevant personnel and records

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

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

Scope of Internal Audit activities

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control

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

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

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Managers are required to report all suspicions of theft, fraud and irregularity to the Chief Internal Auditor. The Chief Internal Auditor manages and controls all investigations and will ensure that investigators are fully trained in carrying out their responsibilities.

Where there is evidence that County Council staff are committing fraud, internal audit will liaise with Human Resources and the department concerned. The decision on whether to invoke criminal proceedings will be made by the Chief Internal Auditor in conjunction with the Monitoring Officer.

The monitoring of the County Council's Anti-Fraud Strategy will be the responsibility of the Chief Internal Auditor, as part of the monitoring of the annual internal audit plan.

Internal audit also facilitate the County Council's participation in the National Fraud Initiative (NFI) in which data from the County Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Reporting

Chief Internal Auditor's Annual Report and Opinion

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

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

The annual report will incorporate as a minimum:

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

Senior Management

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

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

The Board

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

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

Review of the internal audit charter

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

Annex 1

Southern Internal Audit Partnership – Client Portfolio

Strategic Partner: Hampshire County Council

Key Stakeholder Partners: Havant Borough Council
East Hampshire District Council
Winchester City Council
Hampshire Fire & Rescue Authority
Office of the Police & Crime Commissioner
/ Hampshire Constabulary

External clients: West Sussex County Council
Sussex Police / Sussex Office of the Police
& Crime Commissioner
Hampshire Pension Fund

Higher Education Institutions

University of Winchester

Further Education Institutions

Eastleigh;
Isle of Wight;
Highbury;
Itchen;
Portsmouth;
QMC;
St Vincent's; and
Taunton's;

Charitable Organisations

Vtct

Annex 2

Assurance Services

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	22 June 2017
Title:	Internal Audit Plan 2017 -18
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Neil Pitman

Tel: 01962 845139

Email: Neil.pitman@hants.gov.uk

1. Executive Summary

1.1. The purpose of this paper is to provide the Audit Committee with an overview of the Internal Audit Plan 2017 – 2018 (Appendix 1)

2. Contextual information

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

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

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

2.3. Internal audit focus should be proportionate and appropriately aligned, as such, only high and medium priority reviews are incorporated within the Internal Audit Plan.

2.4. All low priority review areas remain within the audit universe and are reassessed on an annual basis, however, will not be routinely incorporated in the planning process if continued to be assessed as a low priority.

2.5. The audit plan will remain fluid to ensure internal audits ability to react to the changing needs of the County Council.

2.6. Other reviews, based on criteria other than risk, may also be built into the work plan. These may include 'mandatory' audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate a contribution to the audit opinion on risk management, control and governance

3. Finance

- 3.1. Our 'internal audit charter' ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion.
- 3.2. Significant matters that jeopardise the delivery of the plan, or require changes to the plan are identified, addressed and reported to the Audit Committee.

4. Performance

- 4.1. The internal audit team have adopted a matrix style approach to enable the delivery of the plan, by using a resource pool of multi disciplinary auditors capable of forming into teams as audit projects determine.
- 4.2. This approach will ensure seasonal peaks in demand can be effectively managed, an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise.
- 4.3. The Audit Plan 2017 – 18 has been developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's objectives.
- 4.4. The endorsement and sponsorship of the plan at member / chief officer level will assist in providing the engagement and buy-in of staff at an operational level to ensure the outcome of audit reviews are optimised

5. Recommendation(s)

- 5.1. That the Audit Committee is invited to comment on and approve the Audit Plan for 2017 – 2018.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	no
Maximising well-being:	no
Enhancing our quality of place:	no
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:	
'Board' approval of the Internal Audit Plan, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards	

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Internal Audit Charter	22 June 2017
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;

Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;

Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals within this report.

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime, however internal audit work is planned to ensure that controls are in place to minimise the risk of fraud and corruption against the County Council.

3. Climate Change:

How does what is being proposed impact on our carbon footprint / energy consumption? *No specific changes*

How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? *No specific proposals affecting adaptation to climate change*

Internal Audit Plan

2017-18

Hampshire County Council



Southern Internal Audit Partnership

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Assurance through excellence
and innovation

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Introduction

The role of internal audit is that of an:

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

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

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

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

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

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

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

Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The team will be led by Neil Pitman, Head of Southern Internal Audit Partnership, supported by Karen Shaw as Strategic Lead and Sarah Allen, Iona Bond, Amanda Chalmers, Laura English, Liz Foster, and Nat Jerams, Audit Managers.

Conformance with internal auditing standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2015 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

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Council Risk

The County Council have a clear framework and approach to risk management. The strategic risks assessed by the County Council are a key focus of our planning for the year to ensure it meets the organisation's assurance needs and contributes to the achievement of their objectives. We will monitor the strategic risk register closely over the course of the year to ensure our plan remains agile to the rapidly changing landscape.

Developing the internal audit plan 2017/18

We have used various sources of information and discussed priorities for internal audit with members of all departmental management teams as well as their management groups and other key contacts as appropriate.

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

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

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



Shared Services

Services provided under the shared service arrangements with Hampshire Constabulary, the Office of the Police and Crime Commissioner and Hampshire Fire and Rescue Service continue to be reviewed via a joint internal audit plan that provides assurance to all parties to avoid duplication of effort. All three organisations contribute audit days to this plan which is also reported below for information. An internal audit protocol for this work has been agreed with partner and shared services management

Internal Audit Plan 2017-18

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
Corporate Cross Cutting				
Traded services (and shared outside SS)	Director of Culture, Communities and Business Services	HCC0006	High	Governance arrangements and the cost / pricing model for income generating initiatives.
Equality impact assessments	Director of Transformation and Governance	HCC0006;CO0009	Medium	Focus on transformation proposals.
Information management	Director of Transformation and Governance	CO0009;AS0011;CC0008; CO010008;CO040006;ET0022	High	Review of the areas not covered by the 2017 ICO visit.
Business Continuity/emergency planning	Director of Transformation and Governance	AS0001;AS0010; CO0003; CO0010;CO010008; CO010009;ET0027;HCC0009	High	Periodic review of business continuity and emergency planning process and compliance.
Records management	Director of Transformation and Governance	CO010008;CO0009	Medium	Review of records management (creation, retention and destruction).
Health and Safety	Director of Transformation and Governance	AS0003;CO0009	High	Review of new processes introduced by the Corporate Health and Safety Manager and follow up actions arising from the previous review.
Capital programme	Various	CO0017;ET0013	Medium	Review of the management of a sample of projects.
Hantsdirect - CART model	Assistant Chief Executive	AS0010;HCC0006	Medium	Review of the new CART model.

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
Hantsdirect -service standards	Assistant Chief Executive	CO0009	Medium	How service standards are being monitored, recorded, achieved and reported.
Information security	Director of Corporate Resources	CO0009;CO010008; CO010009	High	Arrangements in place to ensure the confidentiality, integrity and availability of corporate information.
Local management of shared services processes	Director of Corporate Resources	CO0009;CO0013; CO0015;HCC0006	High	Client side application of shared service activities which remain with HCC staff.
Social media policy	Assistant Chief Executive	CO0009	Medium	Review of the corporate social media policy, and testing of compliance.
Marketing	Assistant Chief Executive	CO0009	Medium	New governance arrangements around marketing and branding.
Use of volunteers	Assistant Chief Executive	CO0009;HCC0007	High	Corporate cross-cutting review of use of volunteers.
Corporate Governance				
Risk Management	Director of Transformation and Governance	CO0009	High	Effectiveness and application of the corporate risk management strategy/policy.
Corporate Governance Framework	Director of Transformation and Governance	CO0009	Medium	Review of the corporate governance framework following updated guidance.
Complaints and compliments	Director of Transformation and Governance	CO0009	Medium	Processes for handling complaints, identification of common themes and resolution.

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
Fraud & Irregularity	Director of Corporate Resources	CO0009	High	Delivery in accordance with the Fraud Risk Plan (appendix 1).
Annual Governance Statement	Director of Transformation and Governance	CO0009	Mandatory	Contribution to and overview of the Annual Governance Statement.
Annual self assessment against internal audit Standards	Chief Internal Auditor	CO0009	Mandatory	In accordance with the requirements of the Public Sector Internal Audit Standards.
Assurance mapping	Chief Internal Auditor	CO0009	High	Facilitate roll out of assurance mapping across the organisation.
Financial Management				
Financial assessments and benefits	Director of Adults', Health and Care	CO0009	High	Process review following transition to AH&C department.
Premis	Director of Corporate Resources / Director of Culture, Communities and Business Services	CO0009	Medium	To review the operation and consistent use of the system (construction specific contract management & payment).
Information Technology				
Change management	Director of Corporate Resources	CO0003;CO0009; CO010008	Medium	Changes to configuration items are introduced into production in a controlled manner.
Network management and monitoring	Director of Corporate Resources	CO0009;CO010009	High	Review of network management security & integrity.

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
SAP operational basis support	Director of Corporate Resources	CO0003;CO0009; CO010008	Medium	Review of SAP Basis functions.
Platform monitoring (Windows & Linux)	Director of Corporate Resources	CO0003;CO0009; CO010008	Medium	Monitoring of essential IT equipment located in the Winchester and Dorset data centres.
Database management & security	Director of Corporate Resources	CO0003;CO0009; CO010008	Medium	Review of controls in place to ensure confidentiality, integrity and availability of data held.
Assurance mapping (IT)	Director of Corporate Resources	CO0003;CO0009; CO010008;CO010009	Medium	Annual summary of all forms of assurance with regard IT.
Identity management	Director of Corporate Resources	CO0003;CO0009; CO010008;HCC0006	High	Identity management will be key to the Digital programme, to ensure the right people have access to the right services and information.
Contract management - IT	Director of Corporate Resources	CO0009	High	Review management of IT contracts.
PCI compliance testing	Director of Corporate Resources	CO010008	High	PCI compliance testing to support the self assessment process.
Business applications	Director of Corporate Resources	CO0009;CO010008	Medium	Review of key business application(s).
ISO27001	Director of Corporate Resources	CO010008;CO010009	Medium	Testing to support self-assessment.

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
Corporate Objective - Hampshire safer and more secure for all				
Safeguarding - Children	Director of Children's Services	CC0009;CS0003; CS0005;HCC0001	High	To review the ongoing internal and external assurances that the department receive for the safeguarding of children.
Safeguarding - other departments	Director of Children's Services / various	CC0009;CS0003; ET0011;HCC0001	High	A review of safeguarding arrangements across departments (excluding Children's Services).
School thematic review(s)	Director of Children's Services	CS0004	High	<ul style="list-style-type: none"> • Pupil Premium • Attendance – Children in Care • Recruitment • Offsite activities
Reactive - Schools/establishments	Director of Children's Services	CS0004	High	Provision to enable risk based reviews of school or establishment as the need arises.
Swanwick Lodge	Director of Children's Services	CS0004	High	Review the internal processes to gain assurances that the needs of each child are being met at the unit and arrangements to ensure the quality of care.
SFVS	Director of Children's Services	CS0004	Mandatory	To review the SFVS responses received and sample check of responses prior to DfE deadline.
Home to school transport	Director of Children's Services / Director of	CS0003;ET0011	High	Safe transit of eligible children (to include contract management arrangements).

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
	Economy, Transport and Environment			
Care Leavers	Director of Children's Services	CS0003;HCC0001	Medium	Spend analysis & review .
Direct payments (CS)	Director of Children's Services	CS0003;CO0009 HCC0001	High	End to end review of the DP process.
Unaccompanied Asylum seekers	Director of Children's Services	CS0003;HCC0001	High	Growth area. Review of how needs are being met and funded.
Music Service	Director of Children's Services	CO0009	Medium	To review the processes for income collection within the music service.
Education Centres	Director of Children's Services	CS0004;CS0006	High	Coding of attendance and spend against pupils based on varying provisions.
Troubled families - claims	Director of Children's Services	Mandatory	Grant claim	10% sample of claims in line with grant requirements.
Special Guardianship Orders (SGO's)	Director of Children's Services	HCC0001	High	Timeliness/ completeness of SGO's.
Use of Agency Staff	Director of Children's Services	CS0003;CS0009; HCC0001	High	Rationale and use of agency staff (non schools).
Transition of children to Adults Health and Care	Director of Children's Services / Director of Adults, Health and Care	CS0003;CO0009; HCC0001	Medium	Arrangements for children with care packages moving across to Adults Health and Care.
Elective Home Education (EHE)	Director of Children's Services	CO0009	Medium	Process review against statutory duties.

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
Corporate Objective - Maximising wellbeing				
Adult services establishments - Medicine control in residential/nursing homes (OP)	Director of Adults', Health and Care	AS0016;HCC0002	High	Compliance with the medication management policy across OP nursing and residential in house services.
Adult services establishment review(s)	Director of Adults', Health and Care	AS0016;HCC0002	High	<ul style="list-style-type: none"> • Support plans • Community involvement activities
Personalisation - self directed support	Director of Adults', Health and Care	AS0004;HCC0002	Very High	End to end process review looking at a sample of cases across the department.
Integrated Reablement (CRT react, Sensory and Occupational Therapists combined)	Director of Adults', Health and Care	AS0019;CO0009	High	Review of the implementation of the new combined service.
Continuing healthcare	Director of Adults', Health and Care	AS0005;HCC0002	High	To review the CHC process and compliance across the department.
Large scale investigations	Director of Adults', Health and Care	CO0009	Medium	How investigations are handled and reflections/learning from such events.
Electronic Care Monitoring System (ECM), telehealth – home care monitoring	Director of Adults', Health and Care	AS0007;AS0014; AS0020;HCC0002	High	Follow up review based on the findings from the 2015/16 audit.
Telecare	Director of Adults', Health and Care	AS0007;HCC0002	Medium	Awareness and roll out / take up of Telecare.
Out of County Placements	Director of Adults', Health and Care'	AS0007;AS0008	Medium	Review of out of county placements across LD/OP and PD.
Data Quality on AIS	Director of Adults', Health and Care	AS0011	High	To review the completeness and accuracy of data recorded on the AIS system.

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
Regulation 17 visits	Director of Adults', Health and Care	AS0003;CO0009; HCC0002	High	To assess adequacy in accordance with the Health & Social Care Act.
Adults, Health and Care Complaints Team	Director of Adults', Health and Care	CO0009;HCC0002	High	Review of the handling of complaints within the department against agreed process.
Health and Safety	Director of Adults', Health and Care	AS0003;CO0009; HCC0002	High	To review of the processes in place for Health and Safety across the department.
Information Management Steering Group	Director of Adults', Health and Care	CO0009	High	To review the arrangement for granting access requests through the IMSG.
Disability Related Expenses	Director of Adults', Health and Care	CO0009	High	How DRE's are accounted for and consistency across the department.
Public Health - Quality and Performance Group	Director of Adults', Health and Care	CO040003 to CO040017	Medium	To review the governance & operation of the new quality and performance group.
Corporate Objective - Enhancing our quality of place				
Economic Development and Business Engagement	Director of Economy, Transport and Environment	CO0009;ET0008	High	Review of governance arrangements.
ETE Incentive bid self assessment	Director of Economy, Transport and Environment	CO0009	Advice	Advisory role to support the bid.
Developer contributions	Director of Economy, Transport and Environment	CO0009;ET0002	Medium	Review of new processes in place in this area.
CCBS establishment thematic review	Director of Culture, Communities and Business	CO0009	High	Review of income collection processes.

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
Services				
District working arrangements (Environmental Services)	Director of Economy, Transport and Environment	CO0009	High	Review of new arrangements (effective 1/4/17).
S38 - Road Making Agreements	Director of Economy, Transport and Environment	CO0009;ET0002	High	Follow up review based on the findings from the previous audit.
Grant funding for capital schemes	Director of Economy, Transport and Environment	ET0013	High	Arrangements in place to manage risks, including annual approval of grant funding from the LEPs.
Major Scheme Programme development	Director of Economy, Transport and Environment	CO0009;ET0013	High	Assurance role for the project to develop the Major Scheme Programme.
Miscellaneous Service Reviews				
Business units	Director of Culture, Communities and Business Services	CO0009	Medium	Review of County Supplies with a focus on stock control.
Economic Development - Development of Business / Investment Property Portfolio	Director of Economy, Transport and Environment	CO0009;CO0016; CO0017	High	Review of governance arrangements.
Procurement and contract management				
Procurement - strategy and governance	Director of Transformation and Governance	CO0009;CO0016	High	Arrangements in place to ensure there is clear strategy and governance around the procurement process.
Contract management - corporate	Various	AS0007;CO0009; ET0025;HCC0005	High	Effectiveness of contract management arrangements for a sample of contracts

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope	
				not covered by individual reviews.	
Procurement - Independent Fostering Agencies	Director of Children's Services	CO0009;HCC0005	High	To review contract management arrangements.	
Contract Management – Major Contracts	Director of Economy, Transport and Environment	CO0009;HCC0005	High	<ul style="list-style-type: none"> • Waste Disposal • Matrix • Modular framework • GEN 	
Contract Governance	Director of Economy, Transport and Environment	CO0009;ET0024; ET0025	High	To review the arrangements for the new contract commencing during the year: <ul style="list-style-type: none"> • De-Mobilisation of Term Highways • Highways – HHSC 	
Contract procurement	Director of Culture, Communities and Business Services	C0009; HCC0005	High	To review the procurement of contract commencing during the year: <ul style="list-style-type: none"> • Term Maintenance Contract • Minor works framework 	
Grant/non-assurance work					
Reading / Hampshire Property Partnership			CO0009	Grant	Certify a sample of transactions and reconciliations for HCC and Reading Borough Council.
HCC Local Transport Capital Block Funding (including pot hole funding)			Mandatory	Grant	Grant certification work.

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
HCC Local Authority Bus Subsidy grant		Mandatory	Grant	Grant certification work.
Disabled Facilities Grant		Mandatory	Grant	Grant certification work.
Local Growth Fund (LEP)		Mandatory	Grant	Grant certification work.
Bus Rapid Transit		CO0009;HCC0005	Grant	Annual review of accounts and profit share due to HCC.
Total Days				2426

Shared Services Internal Audit Plan 2017-18

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Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
Financial Systems				
Payroll	Director of Corporate Resources	CO0009	High	Coverage to meet external audit / regulatory requirements
Payroll support	Director of Corporate Resources	CO0009	Medium	Coverage to meet external audit / regulatory requirements
Order to Cash (OTC)	Director of Corporate Resources	CO0009	High	Coverage to meet external audit / regulatory requirements
Purchase to pay (P2P)	Director of Corporate Resources	CO0009	High	Coverage to meet external audit / regulatory requirements

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
Main accounting system (SAP)	Director of Corporate Resources	CO0009	Medium	Coverage to meet external audit / regulatory requirements
Treasury Management	Director of Corporate Resources	CO0009	Medium	Coverage to meet external audit / regulatory requirements
Debt Collection	Director of Corporate Resources	CO0009	High	Coverage to meet external audit / regulatory requirements
BACS	Director of Corporate Resources	CO0009	Medium	Coverage to meet external audit / regulatory requirements
Governance & IT				
Governance arrangements	Director of Corporate Resources	CO0009;CO0013; CO0014;CO0015	High	Follow up of the 2016/17 review of Information Governance
Change Control	Director of Corporate Resources	CO0009;CO0017; CO010008	High	Review of a sample of automated and manual change controls to ensure robust implementation and ongoing effectiveness
Statutory Checks	Director of Corporate Resources	AS0003;CC0015; CC0016;CO0009; CC0023	High	Review of processes in place to monitor and complete statutory health checks i.e. fire, legionella, asbestos etc.
HR				
Recruitment	Director of Corporate Resources	AS0006;AS0021; CO010007;HCC0007	High	Focus on the refined recruitment practices implemented in Q4 of 2016/17

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Audit Needs Assessment	Scope
Procurement				
Category management	Director of Corporate Resources	CO0009;HCC0005	High	Review of procurement categories each year on rotation
Contract management	Director of Corporate Resources	CO0009;HCC0005	High	New contract(s) being procured in partnership with HCC, OPCC and HFRS. To review post procurement/ transitioning/ embedding
Total Days				385

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	22 June 2017
Title:	Annual Audit Report and Opinion 2016 -17
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Neil Pitman

Tel: 01962 845139

Email: Neil.pitman@hants.gov.uk

1. Executive Summary

1.1. The purpose of this paper is to provide the Audit Committee with the Chief Internal Auditors opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2017.

2. Contextual information

2.1. In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement.

2.2. The Annual Report for 2016/17 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the system of internal control and summarises audit work from which that opinion is derived for the year ending 31 March 2017.

2.3. The Audit Committee's attention is drawn to the following points:

- Internal audit was compliant with the Public Sector Internal Audit Standards during 2016/17;
- The revised internal audit plan for 2016/17 has been substantially delivered; and
- The County Council's framework of governance, risk management and management control is considered to be 'Adequate' and audit testing has demonstrated controls to be working in practice.

2.4. Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible managers.

3. Recommendation

- 3.1. That the Audit Committee accepts the Chief Internal Auditor's annual report and opinion for 2016/17.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	no
Maximising well-being:	no
Enhancing our quality of place:	no
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because: 'Board' approval of the Internal Audit Plan, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards	

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Internal Audit Charter	22 June 2017
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;

Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;

Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals within this report.

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime, however internal audit work is planned to ensure that controls are in place to minimise the risk of fraud and corruption against the County Council.

3. Climate Change:

How does what is being proposed impact on our carbon footprint / energy consumption? *No specific changes*

How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? *No specific proposals affecting adaptation to climate change*

Annual Internal Audit Report & Opinion

2016 - 17

Hampshire County Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

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

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

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards] which were updated in 2016.

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

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

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

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

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

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



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

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

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

Audit Opinion

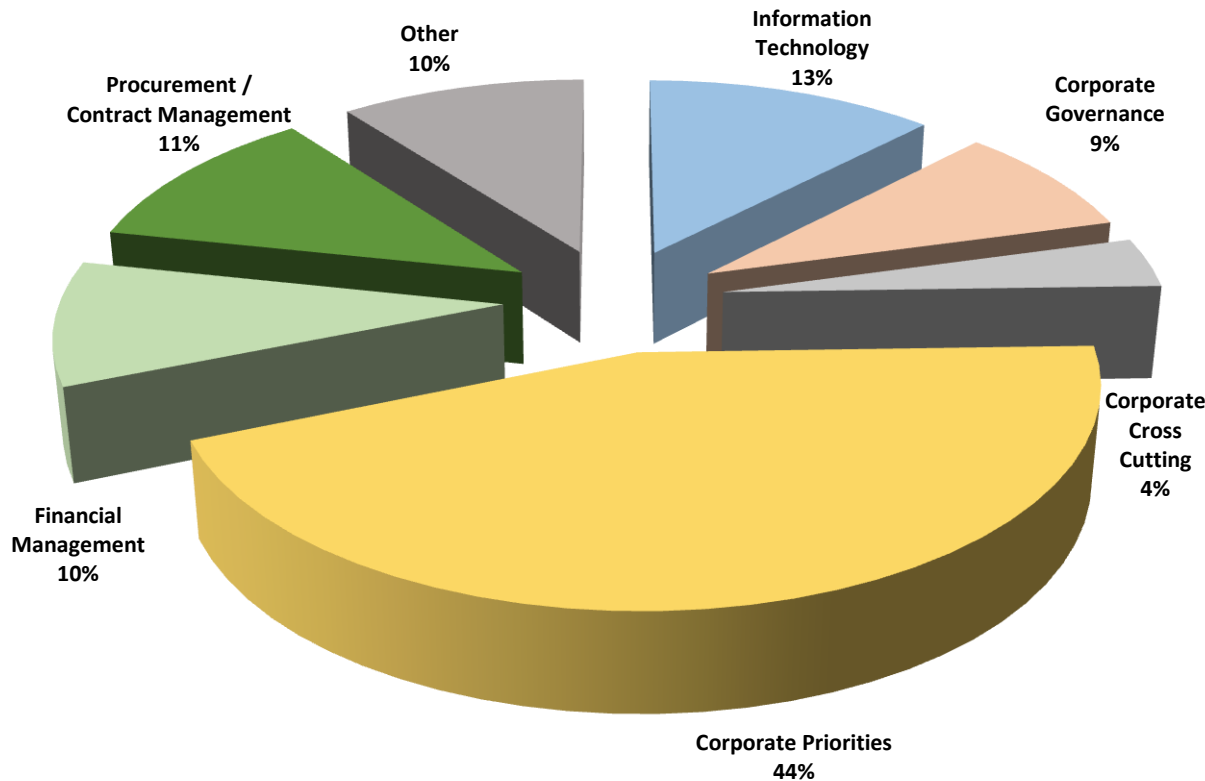
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Hampshire County Council’s internal control environment.

In my opinion, Hampshire County Council’s framework of governance, risk management and management control is ‘Adequate’ and audit testing has demonstrated controls to be working in practice.

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

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2016-17 Internal audit plan, approved by the Audit Committee in June 2016, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

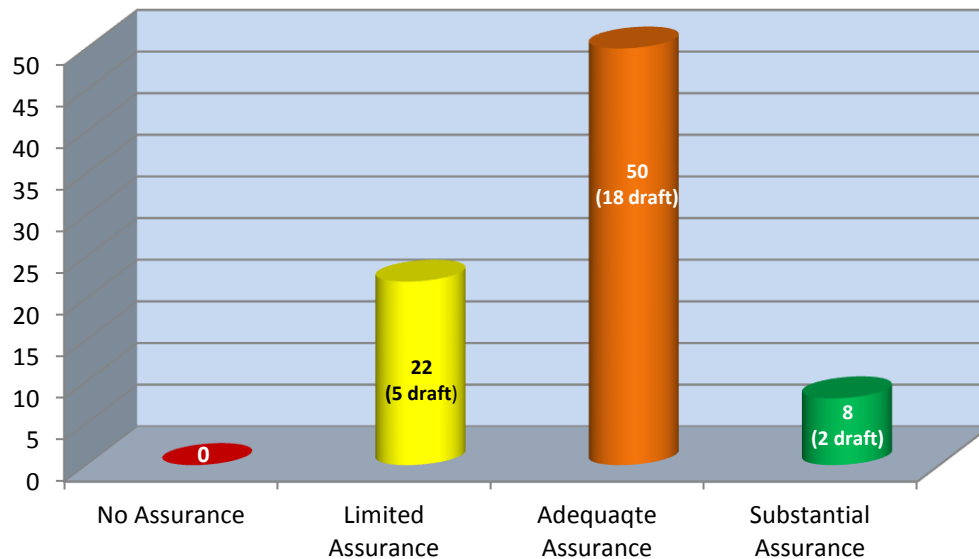
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 106 reviews during the year ending 31 March 2017.

The revised 2016-17 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 25 reviews, however, final reports have not yet been agreed with management;
- Fieldwork remains in progress in respect of 3 reviews (Respite for learning / physical disability; Property Management; and Governance – Pre Contract Approvals)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

Adequate - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

Limited - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

No - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

*23 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification or investigations

5. Key Observations

The were no 'No Assurance' opinions issued during the year. In general internal audit work found there to be a sound control environment in place across a majority of review areas that were working effectively to support the delivery of corporate objectives, however, there were some common themes identified that provide challenge to the organisations risk environment:

Contract Management – Whilst review of major contracts with assigned ownership and dedicated teams were found to be operating effectively, those contracts managed by officers alongside the 'business as usual' responsibilities provided less rigor in the level of performance reporting / monitoring, increasing the risk of service delivery not achieving the necessary standards agreed and expected by the County Council.

Data Quality / Compliance - Whilst in the main service areas were found to maintain a sound control framework, a number of 'limited assurance' reviews found documentation to support process / procedures (including legislative requirements) were absent, incomplete, untimely or not consistently recorded. Non-compliant behaviours provide an increasing risk and can adversely impact the quality and integrity of management information in addition to leaving the County Council and its officers vulnerable and exposed to challenge.

Establishment Reviews - A number of the 'Limited Assurance' reviews issued throughout the year relate to individual and thematic reviews undertaken at schools / council establishments. Issues centred on compliance with policy and procedure (in particular procurement, authorisation, segregation of duties, governance and cash handling) As a result of the autonomy with which they operate, departure from established policy and practice can become common place. Management must remain vigilant to such risk / compliance issues.

Information Management - Observations within some audit reviews highlighted concerns over the governance, retention, access and security of data held by or on behalf of the County Council including data relating to reciprocal arrangements the County Council has in place to manage the provision of disaster recovery. A visit to the disaster recovery site highlighted concerns over the retention of non encrypted data in addition to weaknesses in areas of physical security protecting the premises.

6. Anti Fraud and Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image. Policies and strategies are in place setting out the County Council's approach and commitment to the prevention and detection of fraud or corruption.

The County Council continues to conform to the requirements of the National Fraud Initiative (NFI). The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signaling the need for review and potential investigation.

The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

As part of the 2016/17 NFI exercise the County Council submitted required data sets in October 2016 receiving feedback on potential matches in January 2017 (as detailed in figure 1). Work will be carried out during 2017-18 to review identified 'recommended matches' for fraudulent activity.

Dataset	Recommended Matches
Pensions	477
Payroll	612
Blue Badge	1,843
Concessionary Travel	5,706
Private Residential Care Homes	106
Personal Budgets	69
Creditors	3,716
VAT	106
Total	12,635

Fig.1

* resource has been allocated to prioritise review and clearance of recommended matches.

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. In accordance with the Local Government Transparency Code 2014 the details of internal audits involvement in counter fraud work is summarised below:

Local Government Transparency Code 2014	01.04.16 – 31.03.17
Part 2 Requirements - Fraud	
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	2 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	4 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	136 days*
Total number of fraud cases investigated	10**

*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers, housing benefits etc.)

**the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

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

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An external assessment of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. In considering all sources of evidence the external assessment team concluded:

It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.

In accordance with PSIAS, a further self-assessment was completed in April 2017, concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that

‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.




9. Quality control

Our aim is to provide a service that remains responsive to the needs of the County Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2016-17 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

10. Internal Audit Performance

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

Annual performance indicators			
Aspect of service	2015-16 Actual (%)		2016-17 Actual (%)
Revised plan delivered (including 2015/16 c/f)	97		97
Positive customer responses to quality appraisal questionnaire *	97		96
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

*Customer satisfaction has been assessed through response to questionnaire issued to a wide range of stakeholders including Members, senior officers, key contacts and SIAP staff.

11. Acknowledgement

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

Neil Pitman
Head of Southern Internal Audit Partnership
June 2017

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	22 June 2017
Title:	Annual Treasury Outturn Report 2016/17
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Gemma Farley

Tel: 01962 847540

Email: gemma.farley@hants.gov.uk

1. Purpose

1.1. The County Council adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice, which includes an annual report on the treasury management strategy after the end of each financial year.

2. Summary

2.1. Treasury management in the context of this report is defined as:

2.2. “The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

2.3. This annual report sets out the performance of the treasury management function during 2016/17, to include the effects of the decisions taken and the transactions executed in the past year.

2.4. Overall responsibility for treasury management remains with the County Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the County Council’s treasury management objectives.

2.5. All treasury activity has complied with the County Council’s Treasury Management Strategy and Investment Strategy for 2016/17, and all relevant statute, guidance and accounting standards. In addition the County Council’s treasury advisers, Arlingclose, provide support in undertaking treasury management activities.

2.6. The County Council has complied with all of the prudential indicators set in its Treasury Management Strategy; these are detailed fully in Appendix 1.

3. External Context

3.1. The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions were made in 2016/17.

Economic Background

- 3.2. Politically, 2016/17 was an extraordinary 12 month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA.
- 3.3. UK inflation has been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year on year in April 2016 to 2.3% year on year in March 2017.
- 3.4. In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases.
- 3.5. Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016, and in February the unemployment rate dropped to 4.7%, its lowest level in 11 years.

Financial Markets

3.6. After recovering from an initial sharp drop in Quarter 2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March. Overnight money market rates have remained low since Bank Rate was cut in August.

Credit Background

3.7. Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

4. Local Context

- 4.1. At 31/03/2017 the County Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £755m, while usable reserves and working capital which are the underlying resources available for investment were £522m (principal invested plus gains on investments with a variable net asset value).
- 4.2. At 31/03/2017, the County Council had £333m of borrowing and £513m of principal invested. The County Council's current strategy is to maintain

borrowing and investments below their underlying levels, referred to as internal borrowing.

- 4.3. The County Council's CFR is forecast to increase in 2017/18 and its capital programme does not include any need to borrow externally over the forecast period. Investments are forecast to fall as capital receipts and internal borrowing from reserves are used to finance capital expenditure.

5. Borrowing Strategy

- 5.1. At 31/03/2017 the County Council held £333m of loans, (a decrease of £13m on 31/03/2016) as part of its strategy for funding previous years' capital programmes.
- 5.2. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the County Council's long-term plans change being a secondary objective.
- 5.3. Affordability and the "cost of carry" remained important influences on the County Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained and are likely to remain at least over the forthcoming two years, lower than long-term rates, the County Council determined it was more cost effective in the short-term to use internal resources instead of taking out new borrowing.
- 5.4. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the County Council with the monitoring of internal and external borrowing.

Table 1: Borrowing Activity in 2016/17

	Balance on 01/04/2016 £m	Net New Borrowing £m	Balance on 31/03/2017 £m
CFR	755.7		755.4
Short Term Borrowing ¹	12.5	1.0	13.5
Long Term Borrowing	333.3	(13.6)	319.7
TOTAL BORROWING	345.8	(12.6)	333.2
Other Long Term Liabilities	175.5	(4.5)	171.0
TOTAL EXTERNAL DEBT	521.3	(17.1)	504.2
Increase/ (Decrease) in Borrowing £m			(12.6)

5.5. During 2016/17 the County Council repaid £12.54m of maturing PWLB debt, and did not replace this borrowing. This will reduce the future cost of interest payments on the County Council's external debt.

6. LOBOs

6.1. The County Council holds £60m of LOBO loans (down from £73m due to the conversion of Barclays LOBO loans, which is further explained in paragraph 5.7) where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender in the year.

6.2. In June 2016 Barclays Bank informed the County Council of its decision to cancel all the embedded options within standard LOBO loans. This effectively converts £13m of the County Council's Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date. This waiver has been done by 'deed poll'; it is irreversible and transferable by Barclays to any new lender.

7. Debt Rescheduling

7.1. The premium charged for early repayment of PWLB debt remained relatively expensive for the loans in the County Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence. However, consideration continues to be given to

¹ Loans with maturities less than 1 year – the increase reflects more loans falling into this category in the last financial year, rather than new borrowing.

any advantageous opportunity for the County Council to reduce or restructure its debt portfolio.

8. Investment Activity

- 8.1. The combined effect of the EU Bank Recovery and Resolution Directive and the UK's Deposit Guarantee Scheme Directive is to promote deposits of individuals and SMEs above those of public authorities, large corporates and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt similar approaches in due course.
- 8.2. The outlawing of bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities, means that the risks of making unsecured deposits rose relative to other investment options. Since 2014/15 the County Council therefore increasingly favoured secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits.
- 8.3. The County Council has held invested funds representing income received in advance of expenditure plus balances and reserves held. During 2016/17 the Council's investment balances have ranged between £496 and £645 million.

Table 2: Investment Activity in 2016/17

Investments	Balance on 01/04/2016 £m	Balance on 31/03/2017 £m	Average Rate / Yield on 31/03/2017 %	Average Life on 31/03/2017 years
Short term Investments				
- Banks and Building Societies:				
o Unsecured	55.7	35.7	0.56	0.08
o Secured	27.8	20.0	0.57	0.62
- Money Market Funds	66.1	61.7	0.26	0.00
- Local Authorities	92.5	116.8	0.68	0.39
- Corporate Bonds	10.0	1.3	0.37	0.19
	252.1	235.5	0.54	0.26
Long term Investments				
- Banks and Building Societies:				
o Secured	65.0	70.0	0.88	1.58
- Local Authorities	113.5	97.5	2.11	1.56
	178.5	167.5	1.59	1.57
Long term Investments – high yielding strategy				
- Local Authorities				
o Fixed deposits	20.0	20.0	3.96	16.97
o Fixed bonds	10.0	10.0	3.78	16.77
- Pooled Funds				
o Pooled property	35.0	45.0	3.85	n/a
o Pooled equity	-	20.0	3.04	n/a
o Pooled multi-asset	-	10.0	0.89	n/a
- Registered Provider	-	5.0	3.40	2.08
	65.0	110.0	3.43	14.79
TOTAL INVESTMENTS	495.6	513.0	1.50	1.92
Increase/ (Decrease) in Investments £m		17.4		

8.4. Both the CIPFA Code and the government guidance require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

8.5. Over the year the County Council reduced its exposure to unsecured bank and building society investments by increasing its exposures to other local authorities. The County Council has also invested more of the allocation to the high yield strategy through further investing in pooled property funds, and new investments in pooled equity and multi-asset funds, as well as a new investment with a Registered Provider.

- 8.6. As part of the 2017/18 Investment Strategy the total amount targeted towards high yielding investments was increased to £200m. Investments yielding higher returns will contribute additional income to the County Council, although some come with the risk that they may suffer falls in the value of the principal invested.
- 8.7. Of the £200m available £110m has been invested (an increase of £45m since 31 March 2016). However the fall in long term interest rates since the decision to target higher returns has limited the opportunities that have been available for advantageous long term investments.
- 8.8. The investments in pooled property, equity and multi-asset funds allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the County Council's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.
- 8.9. Although money can be redeemed from the pooled funds at short notice, the County Council's intention is to hold them for at least the medium-term. Their performance and suitability in meeting the County Council's investment objectives are monitored regularly and discussed with Arlingclose.
- 8.10. Security of capital has remained the County Council's main investment objective. This has been maintained by following the County Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17.
- 8.11. Counterparty credit quality was assessed and monitored with reference to credit ratings, for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 8.12. The County Council will also consider the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 8.13. The County Council maintained a sufficient level of liquidity through the use of call accounts and money market funds. The County Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate has been maintained at 0.25% since August 2016 and short-term money market rates have remained at relatively low levels which continued to have a significant impact on cash investment income.
- 8.14. The County Council's average cash balances were £564.5m during the year and interest earned for the year was £8.6m, giving a yield of 1.52%.

9. Compliance with Prudential Indicators

- 9.1. The County Council confirms compliance with its Prudential Indicators for 2016/17, which were set in February 2016 as part of the County Council's Treasury Management Strategy Statement.

10. Treasury Management Indicators

10.1. The County Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures

10.2. This indicator is set to control the County Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

Table 3 – Interest Rate Exposures

	Approved limits for 2016/17	Maximum during 2016/17	Compliance with limits:
Upper limit on fixed interest rate investment exposure	£350m	£172m	Yes
Upper limit on variable interest rate investment exposure	£700m	£473m	Yes
Upper limit on fixed interest rate borrowing exposure	£780m	£442m	Yes
Upper limit on variable interest rate investment exposure	£780m	£120m	Yes

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

Maturity Structure of Borrowing

10.4. This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 4 – Maturity Structure of Borrowing

	Upper	Lower	Actual
Under 12 months	50%	0%	4.0%
12 months and within 24 months	50%	0%	2.3%
24 months and within 5 years	50%	0%	9.1%
5 years and within 10 years	75%	0%	13.3%
10 years and within 20 years	75%	0%	50.9%
20 years and within 30 years	75%	0%	20.4%
30 years and above	100%	0%	0.0%

Principal Sums Invested for Periods Longer than 364 days

10.5. The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Table 5 – Principal Sums Invested for Periods Longer than 364 days

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£350m	£300m	£300m
Actual	£278m		

11. Recommendation

11.1. The Audit Committee are asked to note the contents of this outturn report that is being reported to Cabinet and Full Council.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because the management of the County Council's cash balance needs to be decided.
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Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

Equalities objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

2.1. This proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

Prudential Indicators 2016/17

The Local Government Act 2003 requires the County Council to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the County Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The County Council's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the capital programme report.

Capital Expenditure and Financing	2016/17 Approved £m	2016/17 Revised £m	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m
Total expenditure	237	209	173	283	250
Capital receipts	6	8	4	8	6
Grants and other income	195	102	132	209	187
Revenue contributions	21	69	10	18	33
Contributions from reserves	2	10	15	9	2
Total financing	224	189	161	244	228
Prudential borrowing	22	25	16	49	34
Less repayments from capital receipts etc	(9)	(5)	(4)	(10)	(12)
Total funding	13	20	12	39	22
Total financing and funding	237	209	173	283	250

Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the County Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.17 Approved £m	31.03.17 Revised £m	31.03.17 Actual £m	31.03.18 Estimate £m	31.03.19 Estimate £m
General Fund	739	763	755	788	795

The CFR is forecast to rise by £32m over the next two years as capital expenditure financed by debt is outweighed by resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the County Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.17 Forecast £m	31.03.17 Revised £m	31.03.17 Actual £m	31.03.18 Estimate £m	31.03.19 Estimate £m
Borrowing	330	330	333	316	309
PFI liabilities	168	172	171	166	159
Total Debt	498	502	504	482	468

Total debt is expected to remain below the CFR during the forecast period.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

Operational Boundary for External Debt

The operational boundary is based on the County Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2016/17 Approved £m	2016/17 Revised £m	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	610	660	333	690	700
Other long-term liabilities	170	180	171	170	160
Total Debt	780	840	504	860	860

Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the County Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2016/17 Approved £m	2016/17 Revised £m	2016/17 Actual £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	640	720	333	750	770
Other long-term liabilities	210	220	171	210	200
Total Debt	850	940	504	960	970

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Approved %	2016/17 Revised %	2016/17 Actual %	2017/18 Estimate %	2018/19 Estimate %
General Fund	5.73	4.22	4.07	3.99	4.01

Adoption of the CIPFA Treasury Management Code

The County Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2010.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	22 June 2017
Title:	Anti Money Laundering Policy
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Andrew Bouflower

Tel: 01962 847407

Email: andrew.bouflower@hants.gov.uk

1. Purpose

1.1. This report seeks to formalise the County Council's approach to preventing money-laundering through seeking approval for an Anti-Money Laundering Policy.

2. Summary

2.1. The Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 place obligations on the Council and its employees to establish internal procedures to prevent the use of their services for money laundering.

2.2. Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following acts constitute the act of money laundering:

- concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the Proceeds of Crime Act 2002);
- entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
- acquiring, using or possessing criminal property (section 329).

2.3. While the risk to the Council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities hence the need to publish a policy (contained in Annex 1); which is that the County Council will do all it can to prevent, wherever possible, the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

3. Regulated Activities

- 3.1. Under the Money Laundering Regulations, the County Council only carries out two lines of 'regulated activity, both of which relate to property transactions.
- 3.2. Firstly the Estates and Development Practice undertaking Estate Agency work involving another party, such as an Academy or another partner in a joint land transaction. In order to comply with the Regulations this part of the County Council's service is registered with HMRC.
- 3.3. Secondly Legal Services acting for third parties such as charity clients in property transactions. Legal Services comply with the Solicitors Regulatory Authority (SRA) regulations on anti-money laundering and their compliance with the regulations is assessed as part of the Services' accreditation through the Law Society's legal practice quality mark – Lexel.
- 3.4. There are currently no other activities that require regulation, but the Policy outlines the process for identifying whether an activity should be regulated if this is required.

4. Recommendation

- 4.1. The Audit Committee approve the Anti Money Laundering Policy.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because the management of the County Council's cash balance needs to be decided.
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Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Direct links to specific legislation or Government Directives	
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<u>Document</u>	<u>Location</u>
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IMPACT ASSESSMENTS:

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1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
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- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

Equalities objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

2.1. This proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

Anti-Money Laundering Policy

Introduction

Hampshire County Council (the Council) will do all it can to prevent the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

The Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 place obligations on the Council and its employees to establish internal procedures to prevent the use of their services for money laundering.

Key points

- The Council is committed to the prevention, detection and reporting of money laundering
- All employees must be vigilant for the signs of money laundering
- Any employee who suspects money laundering activity must report this promptly to the Money Laundering Reporting Officer (MLRO)
- No payment to the Council will be accepted in cash (including notes, coins or travellers cheques in any currency) if it exceeds £3,000
- Where the Council is carrying out certain *regulated activities by way of business* then the customer due diligence procedure must be followed
- The Money Laundering Regulations are detailed and complex – if you are in any doubt about the application of this Policy please contact the MLRO

Scope of the Policy

This Policy applies to all employees of the Council and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations.

This Policy sits alongside the Council's Anti-Fraud and Anti-Corruption Strategy and Policy Statement including the 'Whistleblowing policy'.

Failure by a member of staff to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them. Any disciplinary action will be dealt with in accordance with the Council's Disciplinary Procedures.

What is money laundering?

Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following acts constitute the act of money laundering:

- concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the Proceeds of Crime Act 2002);
- entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
- acquiring, using or possessing criminal property (section 329).

These are the primary money laundering offences, and are thus prohibited acts under the legislation. There are also two secondary offences: failure to disclose any of the three primary offences, and tipping off. Tipping off is where someone informs a person or people who are, or who are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

Any member of staff could potentially be caught by the money laundering provisions, if they suspect money laundering and either become involved with it in some way and / or do nothing about it. This Policy sets out how any concerns should be raised.

While the risk to the Council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities: serious criminal sanctions may be imposed for breaches of the legislation. The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.

Policy Statement

Our Policy is to do all we can to prevent, wherever possible, the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. We cannot stress too strongly, however, that it is every member of staff's responsibility to be vigilant.

The Money Laundering Reporting Officer (MLRO)

The officer nominated to receive disclosures about money laundering activity within the council is Andrew Bouflower (Deputy Investments and Borrowing Manager), and can be contacted as follows:

E11 East 3rd Floor
The Castle
Winchester, Hampshire

SO23 8UB
Tel: 01962 847407
andrew.boutflower@hants.gov.uk

In the absence of the MLRO, the Gemma Farley (Accountant – Investments & Borrowing), is authorised to deputise for him.

E11 East 3rd Floor
The Castle
Winchester, Hampshire
SO23 8UB
Tel: 01962 847540
gemma.farley@hants.gov.uk

Disclosure Procedures

Cash payments

No payment to the Council will be accepted in cash (including notes, coins or travellers cheques in any currency) if it exceeds £3,000.

Reporting to the MLRO

Any employee who suspects money laundering activity must report their suspicion promptly to the MLRO, or to the MLRO's deputy if appropriate, using the attached form (Appendix A). If you would prefer, you can discuss your suspicions with the MLRO or their deputy first.

The employee must follow any subsequent directions of the MLRO or deputy, and must not themselves make any further enquiries into the matter. They must not take any further steps in any related transaction without authorisation from the MLRO.

The employee must not disclose or otherwise indicate their suspicions to the person suspected of the money laundering. They must not discuss the matter with others or note on the file that a report has been made to the MLRO in case this results in the suspect becoming aware of the situation.

The MLRO or deputy must promptly evaluate any Disclosure Report, to determine whether it should be reported to the Serious and Organised Crime Agency (SOCA).

The MLRO or deputy must, if they so determine, promptly report the matter to SOCA on their **standard report form** and in the prescribed manner. Up to date forms can be downloaded from the SOCA website at **www.soca.gov.uk**.

The MLRO or deputy will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to SOCA.

Customer Due Diligence

Where the Council is carrying out certain ‘regulated activities’¹ then extra care needs to be taken to check the identity of the customer or client – this is known as carrying out ‘Customer Due Diligence’.

The Regulations regarding customer due diligence are detailed and complex, but there are some simple questions that will help you decide if it is necessary:

- Is the service a regulated activity (see the list at the foot of the page)?
- Is the Council charging for the service i.e. is it ‘by way of business’?
- Is the service being provided to a customer other than a UK public authority?

If the answer to any of these questions is **no** then you do not need to carry out customer due diligence.

If the answer to all these questions is **yes** then you must carry out customer due diligence before any business is undertaken for that client. If you are unsure whether you need to carry out customer due diligence then you should contact the MLRO.

Where you need to carry out customer due diligence then you must seek evidence of identity, for example:

- checking with the customer’s website to confirm their business address;
- conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm the identities of any directors;
- seeking evidence from the key contact of their personal identity, for example their passport, and position within the organisation.

The requirement for customer due diligence applies immediately for new customers and should be applied on a risk sensitive basis for existing customers.

Ongoing customer due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the officer’s knowledge of the customer and a regular scrutiny of the transactions involved.

If, at any time, you suspect that a client or customer for whom you are currently, or are planning to carry out a regulated activity is carrying out money laundering or terrorist financing, or has lied about their identity then you must report this to the MLRO.

¹ “Regulated activity is defined as the provision ‘by way of business’ of: advice about tax affairs; accounting services; treasury management, investment or other financial services; audit services; legal services; estate agency; services involving the formation, operation or arrangement of a company or trust or; dealing in goods wherever a transaction involves a cash payment of €15,000 or more.”

In certain circumstances enhanced customer due diligence must be carried out for example where:

- The customer has not been physically present for identification
- The customer is a politically exposed person²
- There is a beneficial owner who is not the customer – a beneficial owner is any individual who: holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.

Enhanced customer due diligence could include any additional documentation, data or information that will confirm the customer's identity and / or the source of the funds to be used in the business relationship / transaction. If you believe that enhanced customer due diligence is required then you must consult the MLRO prior to carrying it out.

Record Keeping Procedures

Each service area of the Council conducting regulated business must monitor, on an on-going basis, their business relationships in terms of scrutinising transactions undertaken throughout the course of the relationship (including, where necessary, the source of funds) to ensure that the transactions are consistent with their knowledge of the client, its business and risk profile.

Where 'relevant business' is carried out then the customer due diligence records and details of the relevant transaction(s) for that client must be retained for at least five years after the end of the business relationship.

The precise nature of the records is not prescribed by law, however, they must be capable of providing an audit trail during any subsequent investigation, for example distinguishing the client and the relevant transaction and recording in what form any funds were received or paid. In practice, the business areas of the Council will be routinely making records of work carried out for clients in the course of normal business and these should suffice in this regard.

An electronic copy of every customer due diligence record must be sent to the MLRO to meet the requirements of the Regulations and in case of inspection by the relevant supervising body.

Guidance and Training

In support of the policy and procedure, the Council will:

- make all staff aware of the requirements and obligations placed on the Council and on themselves as individuals by the anti-money laundering legislation; and

² A politically exposed person is an individual who at any time in the preceding year has held a prominent public function outside of the UK, and EU or international institution / body, their immediate family members or close associates.

- provide targeted training to those most likely to encounter money laundering.

Conclusion

The legislative requirements concerning anti-money laundering procedures are lengthy and complex. This policy has been written so as to enable the Council to meet the legal requirements in a way which is proportionate to the low risk to the Council of contravening the legislation.

Any concerns whatsoever regarding any transaction should be reported to the MLRO.

Further Information

Further information can be obtained from the MLRO and the following sources:

- **www.soca.gov.uk** – website of the Serious and Organised Crime Agency
- “Proceeds of Crime (Anti-Money Laundering) – Practical Guidance for Public Service Organisations” – CIPFA
- “Anti-Money Laundering (Proceeds of Crime and Terrorism) – Second Interim Guidance for Accountants” – CCAB (**www.ccab.org.uk**)
- Money Laundering Guidance at **www.lawsociety.org.uk**
- SI 2007 No. 2157 The Money Laundering Regulations 2007 at http://www.hm-treasury.gov.uk/consultations_and_legislation/money_laundering_directive/consult_moneylaundering_2007.cfm



Appendix A

CONFIDENTIAL

Report to Money Laundering Reporting Officer

Re: Money laundering activity

To: Andrew Boutflower, Hampshire County Council Money Laundering Reporting Officer

From: _____
[insert name of employee]

Service: _____
[insert post title and Service]

Ext/Tel No: _____

Urgent: YES/NO

Date by which response needed: _____

Details of suspected offence:

Name(s) and address(es) of person(s) involved:
[if a company / public body please include details of nature of business]

Nature, value and timing of activity involved:
[Please include full details e.g. what, when, where, how. Continue on a separate sheet if necessary]



Nature of suspicions regarding such activity:

[Please continue on a separate sheet if necessary]

Has any investigation been undertaken (as far as you are aware)?

[Please tick the relevant box]

Yes

No

If yes, please include details below:

Have you discussed your suspicions with anyone else?

[Please tick the relevant box]

Yes

No

If yes, please include details below, explaining why such discussion was necessary:

**Have you consulted any supervisory body guidance re money laundering?
(e.g. the Law Society)**

[Please tick the relevant box]

Yes

No

If yes, please specify below:

Do you feel you have a reasonable excuse for not disclosing the matter to the SOCA? (e.g. are you a lawyer and wish to claim legal professional privilege?)

[Please tick the relevant box]

Yes

No



If yes, please set out full details below:

Are you involved in a transaction which might be a prohibited act under sections 327 – 329 of the Act and which requires appropriate consent from the SOCA?

[Please tick the relevant box]

Yes

No

If yes, please enclose details in the box below:

Please set out below any other information you feel is relevant:

Signed: _____

Dated: _____

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years' imprisonment.

THE FOLLOWING PART OF THIS FORM IS FOR COMPLETION BY THE MLRO

Date report received: _____

Date receipt of report acknowledged: _____



CONSIDERATION OF DISCLOSURE:

Action Plan:

OUTCOME OF CONSIDERATION OF DISCLOSURE:

Are there reasonable grounds for suspecting money laundering activity?

If there are reasonable grounds for suspicion, will a report be made to SOCA?
[Please tick the relevant box]

Yes

No

If yes, please confirm date of report to SOCA: _____ and complete the box below:

Details of liaison with the SOCA regarding the report:

Notice Period: _____ to _____

Moratorium Period: _____ to _____

Is consent required from the SOCA to any ongoing or imminent transactions which would otherwise be prohibited acts?
[Please tick the relevant box]



Yes

No

If yes, please confirm full details in the box below:

Date consent received from SOCA: _____

Date consent given by you to employee: _____

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the SOCA, please set out below the reason(s) for non-disclosure:

[Please set out reasons for non-disclosure]

Date consent given by you to employee for any prohibited act transactions to proceed: _____

Other relevant information:

Signed: _____ Dated: _____

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date of Decision	22 June 2017
Decision Title	Annual Governance Statement
Report From:	Director of Transformation and Governance and Director of Corporate Resources – Corporate Services

Contact name Barbara Beardwell, (Head of Governance)

Tel 01962-855157 **Email** Barbara.beardwell@hants.gov.uk

Contact name Neil Pitman, (Chief Internal Auditor)

Tel 01962- 845139 **Email** Neil.Pitman@hants.gov.uk

1. Executive Summary

1.1 Annex 1 to this report contains the draft Annual Governance Statement which, pursuant to the Accounts and Audit (England) Regulations 2015, must be approved by the Audit Committee in order for it to accompany the signed and dated Statement of Accounts. The Annual Governance Statement must subsequently be signed by the Leader of the County Council and the Chief Executive.

2. Contextual Information

2.1 The County Council is required pursuant to the Accounts and Audit (England) Regulations 2015 to produce a broad based Annual Governance Statement.

2.2 Once approved by this Committee the Annual Governance Statement must be signed on behalf of the County Council by the Leader of the County Council and the Chief Executive.

2.3 The Annual Governance Statement is an important and integral part of the County Council's Corporate Governance regime.

2.4 The Annual Governance Statement provides a review of the effectiveness of the County Council's internal control systems and gives assurances about how effectively they operate.

2.5 Guidance supplied by the Chartered Institute of Public Finance Accountancy (CIPFA) has been considered in the preparation of the draft Annual Governance Statement.

3. Methodology

- 3.1 In early 2017 Departmental Assurance Statements were sent out to all Departments seeking assurances about departmental governance arrangements.
- 3.2 In March 2017 Officers performing key corporate roles on behalf of the County Council were asked to produce an appropriate position statement based on the CIPFA Guidance.
- 3.3 A copy the emerging Annual Governance Statement has been sent to all Chief Officers, officers undertaking key corporate roles on behalf of the County Council and the Leader of the County Council for comment. The comments received have been taken into account in preparing the draft Annual Governance Statement in Annex 1.

4. Draft Annual Governance Statement

- 4.1 The content of the draft Annual Governance Statement follows the CIPFA Guidance and has been prepared in relation to the County Council's new Code of Corporate Governance which was adopted by the County Council (via the Audit Committee) on 2 February 2017. Members of this Committee now have the opportunity to comment upon it and to indicate whether or not they wish to see any amendments made.

5. Outline of Options

5.1 Option 1

Approve the Annual Governance Statement as drafted.

5.2 Option 2

Approve the Annual Governance Statement with amendments proposed by this Committee.

5.3 Option 3

Reject the Annual Governance Statement.

6. Recommendation

It is recommended that this Committee approves the draft Annual Governance Statement for signature by the Leader of the County Council and the Chief Executive, subject to any amendments that this Committee may wish to make.

CORPORATE OR LEGAL INFORMATION:

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because: The preparation of an Annual Governance Statement is a statutory requirement.

OTHER SIGNIFICANT LINKS:

Links to Previous member decisions:

Title	Ref	Date

Direct Links to Specific Legislation or Government Directives

Title	Date
Accounts and Audit (England) Regulations	2015

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
Delivering Good Governance in Local Government 2016 Edition	
Departmental Assurance Statements	

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

No equality impacts have been identified relating to the decision recommended in this Report

2. Impact on Crime and Disorder:

N/A

3. Climate Change:

3.1. How does what is being proposed impact on our carbon footprint / energy consumption?

N/A

3.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?



Hampshire
County Council

**ANNUAL GOVERNANCE STATEMENT
2016/2017**

FOR

HAMPSHIRE COUNTY COUNCIL

AND

HAMPSHIRE PENSION FUND

Annual Governance Statement for Hampshire County Council and Hampshire Pension Fund

1. Scope of Responsibility

Hampshire County Council is responsible for ensuring that:

- its business is conducted in accordance with the law and to proper standards.
- public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- pursuant to the Local Government Act 1999 it secures continuous improvements in the way in which its functions are exercised, having regard to a combination of efficiency, effectiveness and economy.
- there is a sound system of internal control which facilitates the effective exercise of the County Council's functions and which include arrangements for the management of risk.

These responsibilities also extend to the administration of the Hampshire Pension Fund, which is undertaken by the Pension Fund Panel and Board. The combined Panel and Board is responsible for investment, management and governance of the Fund. This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement during 2016-2017.

2. The purpose of Corporate Governance

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

The system of internal control is a significant part of the framework and is designed to manage risk to 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. The system of internal control is based on an ongoing process designed to identify and prioritise the risk to the achievement of the County Council's policies aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Hampshire County Council for the year ending 31 March 2017 and up to the date of approval of the annual report and the statement of accounts.

The County Council has approved and adopted a 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 Code is available on the County Council's Web site at:

[Code of Corporate Governance](#)

3. Core Principles of good governance

3.1 Behaving with Integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- 3.1.1 The County Council's Constitution is founded on it operating in an open and transparent way, and for the Leader of the County Council and the Chief Executive to set the tone for the organisation by creating a climate and culture of openness, support, and respect.
- 3.1.2 The County Council is committed to the highest ethical standards and has adopted a governance framework to re-enforce this philosophy as well as procedures to investigate any issues should the need arise. The framework, policies and procedures are set out in the County Council's Code of Corporate Governance which was adopted by the County Council during 2016-17. The Code of Corporate Governance demonstrates a comprehensive commitment on the part of the County Council to integrity, ethical values and the rule of law.
- 3.1.3 An officer group comprising the Head of Governance and representatives from Democratic and Member Services, Legal Services and the Insight and Engagement Unit has been established to specifically monitor new legislation. The Legislation Implementation and Review Group meet quarterly, or as required, and provides an effective mechanism for tracking new legislation and ensuring that the County Council is taking appropriate steps to implement it.

3.2 Ensuring openness and comprehensive stakeholder engagement.

- 3.2.1 The County Council's Corporate Strategy – the *Shaping Hampshire Plan* - contains clear strategic aims which are communicated on the County Council's website and through various communications. The Plan provides an operating model for business planning and is informed by various departmental and partnership strategies and priorities.
- 3.2.2 Clear guidance and protocols on decision making, effective arrangements for the approval of exempt reports and easy to use templates for decision reports and records ensure that that the County Council takes decisions in public when appropriate and after a full consideration of relevant factors. Details of the framework relevant to decision making is set out in the Corporate Governance Framework.
- 3.2.3 Public consultation to inform decision making is undertaken in accordance with the County Council's Consultation Policy, which includes five principles

of consultation setting out when and how the County Council will consult the public.

- 3.2.4 Each financial year, an annual report on the Pension Fund is prepared for the Fund's employers to consider at an Annual Employers Meeting to be held by 31 October in the next financial year. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.
- 3.2.5 In the autumn, a summary of the accounts, investment management and administrative arrangements is made available online to current, pensioner, and deferred members.
- 3.2.6 The Statement of Investment Principles is published and made available to scheme employers within three months of any amendments.
- 3.2.7 Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners

3.3 Defining outcomes in terms of sustainable economic, social and environmental benefits.

- 3.3.1 The strategic aims set out in the *Shaping Hampshire Plan* include a description of the County Council's overarching ambitions for delivering positive economic, social and environmental outcomes for Hampshire. These aims are underpinned by a series of key priorities, which reflect, and are supported by, other detailed departmental plans and strategies. Progress against the strategic aims and priorities is tracked through quarterly performance updates to the County Council's Corporate Management Team and Cabinet. Arrangements for reporting corporate performance are set out in the County Council's Corporate Management Framework.

3.4 Determining the interventions necessary to optimise the achievement of the intended outcomes.

- 3.4.1 Clear guidance and protocols for decision making and the involvement of legal and finance officers in all significant decisions of the County Council ensures that decisions are only made after relevant options have been weighed and associated risks assessed. Details of the guidance and protocols are set out in the Code of Corporate Governance.
- 3.4.2 The Director of Corporate Resources advises the Pension Fund Panel and Board on all Pension Fund investment and administrative matters.
- 3.4.3 The Pension Fund's independent adviser, advises the Panel and Board on investment matters.
- 3.4.4 The Pension Fund Panel and Board uses the Fund's actuary and other consultants as necessary, for advice on matters when in-house expertise is not available. The Panel and Board takes advice from the actuary, the Fund's investment managers or specialist consultants or advisers as

required on allocating assets, selecting investment managers, and investment performance targets.

- 3.4.5 Equality Impact Assessments (EIAs) are used throughout the organisation to assess the impact of service proposals and to inform decision making. A review group comprising the Head of Legal, Head of Finance, Corporate Equalities Lead and Assistant Chief Executive undertake periodic cumulative EIAs to understand the overall impact of service proposals on groups with characteristics protected under the Equalities Act (2010).
- 3.4.6 The budget setting process is well established and Departments prioritise budgets and spending in order to achieve intended outcomes. In recent years the budget setting process has inevitably focussed on the achievement of savings to meet reductions in Government grant funding but this aims to be achieved whilst remaining true to the Council's strategic aims and objectives. This includes the consideration of the wider social value that the County Council can generate through its operations.
- 3.4.7 A medium term financial strategy and three year capital programme is updated each year together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the County Council operates.
- 3.4.8 Risks associated with the achievement of intended outcomes are detailed in Risk Registers held at Corporate, Department and project level. These evaluate the effectiveness of existing control measures as well as identifying proposed mitigation.

3.5 Developing the entity's capacity including the capability of its leadership and the individuals within it

- 3.5.1 The relationship between Members and Officers is led by the Leader of the Council and the Chief Executive who have established a culture of mutual respect and co-operation. The role of the Chief Executive is set out in the County Council's Constitution and is well understood by the Members of the County Council. The Protocol for Member Officer Relations also provides clear guidance for both officers and Member on how to manage their relationships effectively.
- 3.5.2 The County Council has a well-established cross-party forum, the Member Development Group (MDG) that supports and oversees the development of Members in a number of ways, such as internal and external briefings and courses. This includes a well received monthly Briefing Programme together with ad hoc departmental briefings. The MDG is supported by the Head of Democratic & Member Services and the Commissioner for People in the Workforce Development Team. Work on the Member Induction Programme to support new and returning Members after the County Council's Elections in May 2017 commenced mid-year 2016 for which the MDG have been fully engaged throughout.

- 3.5.3 Members of the Joint Pension Fund Panel and Board and officers in Corporate Services have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate.
- 3.5.4 A training plan for members of the Joint Pension Fund Panel and Board has been prepared, and training logs for individual members are maintained.
- 3.5.5 The County Council regularly reviews the shape of its workforce against the needs of the service in the context of its capacity and capability requirements. This then informs a range of strategies, for example; recruitment, retention and people development in order to provide effective leadership and deploy appropriate resources to meet the needs of services.
- 3.5.6 The Council's Valuing Performance policy provides a framework for staff and managers to meet, discuss and set goals, following which regular reviews of performance, learning and progress takes place. Staff are held accountable for their own and their teams performance and are encouraged to use the range of learning opportunities that are available across the Council.
- 3.5.7 There is an emphasis on the need for high performance, of which resilience and continuous development play key parts, both of which factor in the regular discussions between managers and staff.

3.6 Managing risks and performance through robust internal control and strong public financial management.

- 3.6.1 The County Council's Corporate Strategy is underpinned by the Corporate Performance Management Framework, which establishes how the quality of services for users is to be measured and reviewed on a regular basis. This includes quarterly reporting of progress against the Shaping Hampshire Plan. The County Council's Annual Performance Report is published on the County Council's website and includes a summary of key areas of performance, including an analysis of any major performance risks and mitigations.
- 3.6.2 The County Council operates a robust Risk Management Strategy, with oversight of those arrangements provided by the Risk Management Board and reports to the Audit Committee.
- 3.6.3 A comprehensive Information Governance Framework is in place, overseen by the Risk Management Board, chaired by the Senior Information Risk Officer.
- 3.6.4 The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources.
- 3.6.5 The Audit Plan 2016 – 17 was developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's key risks and objectives, this includes a periodic review of the County Council's risk management processes.

- 3.6.6 The audit plan remains fluid to ensure internal audit's ability to react to the changing needs of the County Council.
- 3.6.7 The internal audit plan incorporates provision for both proactive and reactive counter fraud and corruption work, which is underpinned by an embedded Anti Fraud & Corruption Strategy and Policy and Anti Bribery Act Policy.
- 3.6.8 The delivery of the internal audit plan enables the Chief Internal Auditor to provide an annual report providing an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control which is reported to Senior Management and the Audit Committee.
- 3.6.9 The County Council's Audit Committee is well established and reports to Full Council. Members of the Audit Committee have no executive responsibility for the management of the organisation, thus ensuring that they are sufficiently independent to scrutinise and challenge matters brought to their attention.
- 3.6.10 The Audit Committee has a clear 'Terms of Reference' providing an effective source of scrutiny, challenge and assurance regarding the arrangements for managing risk and maintaining an effective control environment.
- 3.6.11 The County Council has a well-developed and effective scrutiny function, the structure of which is formalised through the County Council's Constitution. This function is resourced to ensure that Members are able to robustly challenge the Council's decision-making, have active engagement in policy review and development, and monitor the performance of the County Council as a whole.
- 3.6.12 The County Council has strong financial management arrangements at both the strategic and operational level and consistently obtains unqualified opinions for its annual accounts and value for money assessment. The Section 151 Officer is a member of the Corporate Management team and all formal financial decision making has the benefit of the advice and review of the Chief Financial Officer or her representative.
- 3.6.13 Key financial regulations and financial strategies form an important part of the Corporate Governance Framework together with effective risk based financial and performance reporting.
- 3.6.14 Financial management in key risk areas across the County Council focusses on activity and performance management alongside the budget management processes and the financial management framework throughout all tiers of the organisation is appropriately advised and supported by the Finance Department, with a particular focus on the change management programmes that have been a feature of Departmental activity for many years.
- 3.7 Implementing good practices in transparency reporting and audit to deliver effective accountability.**

- 3.7.1 The decision making guidance, protocols and templates referred to in the Code of Corporate Governance and the involvement of senior departmental officers, legal officers and finance officers ensures that public reports are written in a clear and accessible way with sufficient information to enable members of the public to formulate informed opinions on the matters for decision.
- 3.7.2 The Corporate Performance Management Framework provides a transparent cycle of reporting on core performance metrics to CMT and Cabinet. Performance information is published online and is easily accessible to staff, partners and the public.
- 3.7.3 The 'Internal Audit Charter' is presented annually for approval by the Audit Committee. The Charter makes provision that 'Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committee).'
- 3.7.4 The on-going work of internal audit is presented through a quarterly progress report to Audit Committee providing an overview of service performance; delivery against the plan; and progress made by the organisation in the implementation of management actions agreed to mitigate risks identified through internal audit work.
- 3.7.5 Representatives of External Audit routinely attend Audit Committee meetings and present all External Audit reports. Any recommendations for corrective action detailed within External Audit reports are highlighted to Members who will track through to implementation. This is achieved through the clear and concise nature of the minutes to each meeting couple with the inclusion of any overdue recommendations within the internal audit progress report.
- 3.7.6 The internal audit plan includes provision to review the County Council's approach to governance, risk and controls for partnership working. Such reviews are formally reported through the Audit Committee with any significant issues highlighted accordingly.
- 3.7.7 Where appropriate internal audit will gain assurances from third parties to contribute to their overall assurance opinion.
- 3.7.8 The County Council commissioned a consensual audit from the Information Commissioner's Office of its Information Governance and Data Protection arrangements, with a conclusion of "High Assurance". This has been reported to the Cabinet, with a further review by the Audit Committee.
- 3.7.9 Financial reporting complies with relevant statute, codes and good practice guidance and financial and performance information are reported consistently throughout the year alongside each other. Where relevant and appropriate performance comparisons are made to other organisations.

4 Obtain assurances on the effectiveness of key controls

4.1 Appropriate assurance statements are received from designated internal and external assurance providers

4.2 Key controls relating to risks, internal control (including financial management), and governance processes are identified by managers as part of the governance framework and recorded on regular returns. These are consolidated into the risk registers at corporate and departmental level. Internal Audit, as part of its planned review of internal controls regularly evaluates the key controls to determine their adequacy and also carries out tests to confirm the level of compliance. Together the results of each review enable an audit opinion on effectiveness to be provided to management, and any actions for improvement to be agreed.

This assurance is given to each manager in respect of the controls they are responsible for in the form of an audit report and regular summaries are provided for Chief Officers and the Audit Committee to ensure each level of the County Council's management is kept informed of findings and opinions.

4.3 External sources of assurance include the annual opinion and value for money conclusion by external auditors, and statutory inspections of adults social care services, and children's services. These reports are subject to consideration by senior management and Members of the County Council, and appropriate response to any recommendations for improvements are agreed. These reports and responses are normally approved in public and published.

4.4 External sources of validation are being increasingly used to inform assessment of the organisations performance as a core part of the Corporate Performance Framework.

5 Evaluate assurances and identify gaps in control/assurance

5.1 The County Council has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify weaknesses in controls.

5.2 The County 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 officers within the County Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

5.3 The Head of Law and Governance and the Chief Internal Auditor have evaluated the reports from the internal and external assurance providers which have also been reported to the Audit Committee. This Annual Governance Statement sets out the County Council's arrangements for receiving reports and identifying weaknesses in Internal control.

- 5.4 One of the key elements of the Corporate Governance regime and the production of the Annual Governance Statement is the methodology applied to obtain the necessary assurance. This has included:
- a self assessment assurance statement being sent every year to all Departments
 - consultation with other relevant officers throughout the County Council.
- 5.5 The assurance statements cover a range of Corporate Governance and performance issues and they refer to the existence, knowledge and application within departments of governance policies generally.
- 5.6 In line with the Internal Audit Charter approved by the Audit Committee in June, 2015 and which is available on the County Council's website, the key elements of the Corporate Governance framework are risk assessed and reviewed periodically by Internal Audit.
- 5.7 The Internal Audit Team's work forms the basis of a report to the relevant Chief Officer or Key Corporate Manager for any follow up work necessary, and feeds into this Annual Governance Statement.
- 5.8 Departmental Corporate Governance assurance statements were sent out to Departments in 2016.

6 Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance

- 6.1 Work will continue to establish the new *Serving Hampshire* Strategic Plan, and to finalise the revised Corporate Performance Framework. New systems for the collection and analysis of customer experience are being developed to support the ambition to place greater emphasis on customer feedback and external sources of validation. This work includes the development of methods to engage employees further and capture staff feedback.
- 6.2 A comprehensive induction programme will ensure that Members of the County Council are fully up to speed with the practicalities of being a member of the County Council, the operational activity of the County Council, The County Council's governance arrangements for decision making and its arrangements for maintaining high ethical standards.
- 6.3 As part of the County Council's digital project and analytics workstream, work is being undertaken to explore the potential to develop automated dashboard reporting for corporate performance indicators. This could help to improve the timeliness and transparency of performance reporting.
- 6.4 Following its first year of operation, the Customer Engagement Board Terms of Reference will be reviewed. A new Channel Design Authority will be established to govern changes to existing, and implementation of new, customer contact channels, and to support departments to put the customer at the heart of service redesign.

- 6.5 Internal Audit are currently compiling a Council wide 'assurance map' to ascertain all assurances received to mitigate controls in place to manage the organisation's key risks, The outcome of this work will be presented to the Audit Committee to inform the effective discharge of their duties.
- 6.6 The County Council will implement the agreed actions from the Information Commissioner's audit of the County Council's data protection arrangements and review those arrangements in preparation for the implementation of the General Data Protection Regulations in 2018.
- 6.7 The County Council is developing a Health and Wellbeing strategy, refreshing its People Development Priorities in order to focus attention on areas that will have the greatest impact for individuals and the service.

7 There is a robust mechanism to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored

In response to the Action Plan identified in the 2015-2016 Annual Governance Statement:-

- 7.1 Work has been undertaken to develop a new Strategic Plan, to replace the current Corporate Strategy Shaping Hampshire which expires this year. The new Serving Hampshire Strategic Plan will cover the period 2017-2021.
- 7.2 The new Strategic Plan will be underpinned by a revised Performance Management Framework, providing the local governance structure for performance management and reporting to Cabinet. In June 2016, Cabinet took the decision to halt the annual self-assessment process, which formed part of the Corporate Performance Framework, in order to consider its ongoing effectiveness within the County Council's changing business environment.
- 7.3 In December 2016, Cabinet further agreed that the revised Framework should include a more extensive use of the outcomes of external assessments in judging the organisation's overall, annual performance and subsequent areas for improvement. Cabinet also agreed that a greater emphasis should be placed on customer feedback to evaluate the performance of services.
- 7.4 These combined sources of information will sit alongside the County Council's existing programme of internal audit and the annual equality and corporate governance statements, including staff feedback. Regular reporting against an agreed set of performance indicators will continue to be undertaken aligned to the priorities identified in the revised Strategic Plan.
- 7.5 Following the design of a new Customer Operating Model, new customer governance has been established. The Customer Engagement Board sets the strategic principles, priorities and governance around channel design and delivery for services.

- 7.6 Budget setting remains a key corporate activity involving all Departments and as part of last years Annual Governance Statement Improvement Plan, it was highlighted that the County Council needed to maintain a strong focus on the delivery of the Transformation to 2017 Programme at the same time as developing plans for Transformation to 2019 which seek to remove a further £140m from the budget.
- 7.7 This focus was effectively maintained during the year and led to the successful setting of the 2017/18 budget which included the £98m of savings necessary to balance the budget. The only area that did not achieve the savings in full was Adult Services, which had an agreed slippage of around £13m for which a separate action plan has been put in place.
- 7.8 Over the Winter Departments have also been developing their plans for the Transformation to 2019 Programme in readiness for a proposed public consultation exercise over the Summer, continuing the strategy of planning well ahead of time for the next round of savings and providing the time and capacity to implement them in a structured and planned way.
- 7.9 A further area for improvement was the governance and control framework for shared transactional services in order to minimise potential errors. A programme of work across a number of high risk areas was formally closed off at the end of 2016 with future improvement planning returned to business as usual. The impact of the programme has been significant, particularly in the area of payroll, where the number of processing errors has reduced significantly, together with increasing efficiency across the team.

Declaration

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are set out in this Statement.

We propose over the coming year to take steps to address the above 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:

Chief Executive

Leader of the Council

Date:

Date:

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John Coughlan CBE
Chief Executive
Hampshire County Council
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7 April 2017

Direct line: 07769 932604

Email: mgrindley@uk.ey.com

Dear John

Annual Audit and Certification Fees 2017/18

We are writing to confirm the audit work that we propose to undertake for the 2017/18 financial year at Hampshire County Council.

From 1 April 2015, the duty to make arrangements for the audit of the accounts and the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. In October 2015, the Secretary of State confirmed that the transitional arrangements would be extended for one year for audits of principal local government bodies only, to cover the audit of the accounts for 2017/18. The audit contracts previously let by the Audit Commission and novated to PSAA have therefore also been extended for one year to give effect to this decision.

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for principal local government and police bodies. These audited bodies will be responsible for making their own arrangements for the audit of the accounts and certification of the housing benefit subsidy claim. The PSAA will play a new and different role in these arrangements.

Indicative audit fee

For the 2017/18 financial year Public Sector Audit Appointments Ltd (PSAA) has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees. There are no planned changes to the overall work programme for 2017/18. It is therefore proposed by the PSAA that scale fees are set at the same level as the scale fees applicable for 2016/17. These fees reflect the significant reductions made to scale fees since 2012/13.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements

- Value for money conclusion
- Whole of Government accounts.

For Hampshire County Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year
- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes identified within our audit strategy;
- We can rely on the work of internal audit as planned;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the council;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2016/17, our audit planning process for 2017/18 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Summary of fees

	Indicative fee 2017/18 £	Planned fee 2016/17 £	Actual fee 2015/16 £
Total Code audit fee	116,519	116,519	116,519

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative code audit fee will be billed in 4 quarterly instalments of £29,130.

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John Coughlan CBE
Chief Executive
Hampshire Pension Fund
The Castle
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SO23 8UB

06 June 2017

Direct line: 0117 981 2226

Email: rpage@uk.ey.com

Dear John

Annual Audit 2017/18

We are writing to confirm the audit work that we propose to undertake for the 2017/18 financial year at Hampshire Pension Fund.

From 1 April 2015, the duty to make arrangements for the audit of the accounts and the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. In October 2015, the Secretary of State confirmed that the transitional arrangements would be extended for one year for audits of principal local government bodies only, to cover the audit of the accounts for 2017/18. The audit contracts previously let by the Audit Commission and novated to PSAA have therefore also been extended for one year to give effect to this decision.

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for principal local government and police bodies. These audited bodies will be responsible for making their own arrangements for the audit of the accounts and certification of the housing benefit subsidy claim. The PSAA will play a new and different role in these arrangements.

Indicative audit fee

For the 2017/18 financial year Public Sector Audit Appointments Ltd (PSAA) has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees. There are no planned changes to the overall work programme for 2017/18. It is therefore proposed by the PSAA that scale fees are set at the same level as the scale fees applicable for 2016/17. These fees reflect the significant reductions made to scale fees since 2012/13.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements

- Value for money conclusion
- Whole of Government accounts.

For Hampshire Pension Fund our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year
- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes identified within our audit strategy;
- We can rely on the work of internal audit as planned;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the council;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2016/17, our audit planning process for 2017/18 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Summary of fees

	Indicative fee 2017/18 £	Planned fee 2016/17 £	Actual fee 2015/16 £
Total Code audit fee	31,743	31,743	31,743

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative code audit fee will be billed in 4 quarterly instalments of £7,935.75.

Audit plan

Our plan is expected to be issued in January 2018. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Chief Financial Officer and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Governance Committee.

Audit team

The key members of the audit team for the 2017/18 financial year are:

Richard Page

rpage@uk.ey.com

Tel: 0117 981 2226

Executive Director

Adam Swain

aswain@uk.ey.com

Tel: 0118 928 1001

Senior Manager

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely



Richard Page

Executive Director

For and on behalf of Ernst & Young LLP

cc. Cllr. Evans, Chair of the Audit Committee
Carolyn Williamson, Director of Finance

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Hampshire Pension Fund

Year ending 31 March 2017

Audit Plan

Ernst & Young LLP



Building a better
working world

Audit Committee
Hampshire Pension Fund
The Castle
Winchester
Hampshire
SO23 8UJ

March 2017

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 22 June 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Richard Page
Executive Director
For and on behalf of Ernst & Young LLP
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

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

- ▶ our audit opinion on whether the financial statements of Hampshire Pension Fund (the Pension Fund) give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended; and
- ▶ our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements

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

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

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and,
- ▶ management's views on all of the above.

By considering these inputs, our audit focuses on the areas that matter and our feedback is more likely to be relevant to the Pension Fund. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Pension Fund, identified through our knowledge of the Pension Fund's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ reviewing accounting estimates for evidence of management bias, and ▶ evaluating the business rationale for significant unusual transactions ▶ performing analytical review procedures; and ▶ testing accruals and provisions

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ performing mandatory procedures regardless of specifically identified risks.

3. Our audit process and strategy

3.1 Objective and scope of our audit

Under the Code of Audit Practice (the 'Code') our principal objectives are to review, and report on, the Pension Fund's financial statements to:

- ▶ form an opinion on the financial statements under International Standards on Auditing (UK and Ireland); and
- ▶ form an opinion on the consistency of the financial statements within the pension fund annual report with the published financial statements.

3.2 Audit process overview

Our audit involves:

- ▶ identifying and understanding the key processes and internal controls;
- ▶ testing the operation of those controls,
- ▶ where relevant reviewing the work of your internal auditors;
- ▶ reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund and its investments to establish if reliance can be placed on their work and the extent to which we need to engage our own specialists in the audit of those valuations; and
- ▶ substantive tests of detail of transactions and amounts.

Processes

Our initial assessment of the key processes across the Pension Fund has identified the following key processes where we will seek to test key controls, both manual and IT:

- ▶ Benefits Payable
- ▶ Cash and Bank
- ▶ Contributions Receivable
- ▶ Investments
- ▶ Transfers in and out

As investments are managed by contracted fund managers and overseen by the appointed custodian, we will also review the findings of independent ISAE 3402 assurance reports, for the custodian and fund managers, and assess if there are any issues reported that might impact on our testing strategy.

Analytics

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

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

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

Internal audit

As in the prior year we will review internal audit plans and the results of their work. We consider these when designing our overall audit approach and when developing in our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are;

Area	Specialists
Investment valuation	The Pension Fund's custodian and fund managers
Pensions liability	The Pension Fund's actuary and the EY Pensions team

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

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

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

3.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks outlined in section two, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ addressing the risk of fraud and error;
- ▶ significant disclosures included in the financial statements;
- ▶ entity-wide controls;

- ▶ reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ auditor independence.

Procedures required by the Code

- ▶ reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

3.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Pension Fund is £63.3 million based on 1% of net assets. We will communicate uncorrected audit misstatements greater than £3.16m to you.

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

3.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Hampshire Pension Fund is £31,743.

3.6 Your audit team

The engagement team is led by Richard Page, who has significant experience of pension audits. Richard is supported by Adam Swain who is responsible for the day-to-day direction of audit work and is the key point of contact for your finance and pension teams.

Maria Grindley is the director leading our overall engagement with Hampshire County Council and our relationship with the Audit Committee.

3.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Pension Fund through the Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit, we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Pension Fund and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Risk assessment and setting of scopes	December 2016	2 February 2017	Audit Plan
Testing routine processes and controls	January – February 2017	June 2017	Progress Report
Year-end audit	June – July 2017		
Completion of audit	July 2017	September 2017	Report to those charged with governance via the Audit Results Report Audit report , including our opinion on the financial statements Audit report on our opinion on the consistency of the financial statements within the pension fund annual report with the pension fund financial statements.

4. Independence

4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

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

4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Pension Fund.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Pension Fund has approved and that are in compliance with the PSAA Terms of Appointment.

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

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

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

Self-review threats

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

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

Management threats

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

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

Other threats

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

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

Overall Assessment

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

4.3 Other required communications

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 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 ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £	Explanation
Total Audit Fee – Code work	31,743	31,743	31,743	

All fees exclude VAT.

We base the agreed fee presented above on the following assumptions:

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ the operating effectiveness of the internal controls for the key processes outlined in section 3.2 above;
- ▶ we can rely on the work of internal audit as planned;
- ▶ our accounts opinion and value for money conclusion being unqualified;
- ▶ appropriate quality of documentation is provided by the Pension Fund; and
- ▶ the Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. We will discuss any variation with the Pension Fund in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	▶ Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	▶ Audit Results Report
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Audit Results Report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Audit Results Report
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Audit Results Report
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ As required
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	▶ Audit Results Report

Required communication	Reference
Independence	
Communication of all significant facts and matters that bear on EY's objectivity and independence	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:	
<ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	
Going concern	
Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:	▶ Audit Results Report
<ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	
Significant deficiencies in internal controls identified during the audit	▶ Audit Results Report
Fee Information	
<ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report ▶ Annual Audit Letter if considered necessary

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AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 16 December 2016.

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

p C. Carter	p P. Latham
p C. Connor	p T. Rolt
p A. Gibson	p B. Tennent
p A. Joy	a T. Thacker

Employer Representatives (Co-opted members):

p Councillor P. Giddings (Test Valley Borough Council)
p Councillor H. Mason (Portsmouth City Council)
a Mr D. Robbins (Churchers College)
p Councillor M Chaloner (Southampton City Council) substituting for Mr D. Robbins

Scheme Member Representatives (Co-opted members):

p Dr C. Allen (pensioners' representative)
p Mr N. Wood(substitute scheme members representative, substituting for Mr P. Reynolds)
a Mrs V. Arrowsmith (deferred members' representative)

Independent Adviser:

p C. Dobson

119. **BROADCASTING ANNOUNCEMENT**

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

120. **APOLOGIES FOR ABSENCE**

Cllr Thacker, Mrs Arrowsmith and Mr Robbins sent their apologies.

121. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary

interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

122. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 4 November 2016 were confirmed.

123. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman announced to the committee that Mr Reynolds was stepping down from the Panel and Board as the active scheme member representative. On behalf of the committee the Chairmen thanked Mr Reynolds for his dedicated participation over a significant number of years. It will be recommended to the County Council that as the substitute scheme member representative Mr Wood is appointed as the active scheme member representative. The Chairman invited Mr Reynolds to remain and observe the remainder of the meeting.

The Chairman invited members of the Panel and Board who had recently attended training events to update the committee on any relevant matters that they had heard:

- Cllr Connor updated the Panel and Board on a recent SPS conference on investment issues he had attended that in particular covered discussion on the merits of active and passive investment and strategies to protect capital values.
- Mr Wood shared with the Panel and Board his experience of networking with fellow committee members from other funds a recent Fundamentals course.

The Chairman provided an update for the Panel and Board on the progress of investment pooling following his attendance at a meeting with the Government Minister, who was holding meetings with representatives of all the pools. The Chairman informed the committee that work was continuing on the establishment of the ACCESS pool. Key to this work is the agreement of an Inter-Authority Agreement (IAA) between the 11 member funds. An additional Panel and Board meeting has been scheduled for 31 January 2017 in order that a draft of the IAA can be discussed and consideration given to recommending that the County Council to agree the IAA.

124. **GOVERNANCE: PENSIONS ADMINISTRATION UPDATE**

The Panel and Board received and noted a report of the Director of Corporate Resources (item 5 in the Minute Book) setting out the administrative performance from April to September 2016. The Panel

and Board were pleased to note that Pension Services had continued to maintain their improved performance in achieving 100% for all key targets and submitting data by the agreed deadline to the Fund's Actuary for the triennial valuation.

The Panel and Board thanked Pension Services for their continued hard work in delivering an effective and efficient service which was reflected in the comparison of Hampshire's administration and governance costs with the other LGPS Funds.

The Panel and Board noted the timeliness of the notification from employers for key activities, which is critical to the delivery of service to scheme members, and where employers had provided explanations for deadlines that had been missed.

The Director reminded the Panel and Board that where certain specific legal advice is required Pension Fund utilise the services of Burges Salmon. It is recommended that the National Framework for legal services is used to contract with Burges Salmon to provide continuity for legal advice on admission agreements and access the capped fee-rates from the framework.

RESOLVED:

- a) That authority is delegated to the Director of Corporate Resources to use the National Framework for legal services to contract with Burges Salmon for legal advice for pension administration.
- b) That the remainder of the report was noted.

125. **GOVERNANCE - REVIEW OF THE PENSION FUND'S STATUTORY STATEMENTS**

The Panel and Board considered a report of the Director of Corporate Resources (item 6 in the Minute Book) providing an annual update of the Pension Fund's Business Plan, Funding Strategy Statement, Statement of Investment Principles, Governance Policy and Governance Compliance Statements, Communications Policy Statement and Administration Strategy Statement.

The Director reported to the Panel and Board that the Funding Strategy Statement has been redrafted to reflect the 2016 triennial actuarial valuation and new CIPFA guidance. Following the Fund's Annual Employer meeting, where employers were provided with the draft outcome of the actuarial valuation, there has been a period of a months consultation on the Funding Strategy Statement. The Director informed the committee that three consultation responses had been received and reviewed by the Fund's actuary and that further changes to the draft

strategy are not required as a result.

The Panel and Board noted that following the recent publication of revised LGPS Investment Regulations the Pension Fund will be required to produce a Investment Strategy Statement that will replace the Statement of Investment Principles. The draft Investment Strategy Statement will be presented to the Pension Fund Panel and Board before the deadline of 31 March 2017.

RESOLVED:

- (a) That progress on the planned actions in the Business Plan for 2016/17 was noted.
- (b) That the Business Plan for 2017/18 was approved.
- (c) That the Funding Strategy Statement was approved with minor amendments.
- (d) That the Statement of Investment Principles was approved.
- (e) That the Governance Policy and Governance Compliance Statements were approved.
- (f) That the Communication Policy Statement was approved.
- (g) That the Administration Strategy Statement was approved.

126. **GOVERNANCE: INVESTMENT STRATEGIES FOR EMPLOYERS**

The Panel and Board considered a report of the Director of Corporate Resources (item 7 in the Minute Book) written by the Fund's Actuary following the review of the Pension Fund's grouped funding arrangements and decision by the Panel and Board in order to strengthen the Fund's risk management framework and to introduce two intermediate funding targets for specific types of employers in the Fund.

In anticipation of possible queries from employers following changes to their funding targets, the Actuary was asked to comment on the options for implementing different strategies and confirm whether adoption of a single investment strategy remains compatible with differential investment return assumptions being adopted for employers.

The Fund's Actuary's advice is that the Pension Fund maintains the current policy of operating a single investment strategy for the Fund.

RESOLVED:

- (a) That the Pension Fund continued its current policy of operating a

single investment strategy across the Fund

- (b) That it be noted that this may need to be revisited in future should any employers subject to the orphan funding target request a lower risk strategy and be prepared to meet the costs of its implementation.
- (c) That the remainder of the report was noted.

127. **INVESTMENT: CASH MONITORING AND ANNUAL INVESTMENT STRATEGY 2017/18**

The Panel and Board considered a report of the Director of Corporate Resources (item 8 in the Minute Book) on the Pension Fund's cash balances and the Annual Investment Strategy for those cash balances for 2017/18. The Annual Investment Strategy had been prepared taking into account advice from the County Council's treasury management advisers, Arlingclose.

RESOLVED:

- (a) That the Annual Investment Strategy for 2017/18 be approved.
- (b) That the Annual Investment Strategy be implemented from the date of this meeting for the remainder of 2016/17.
- (c) That the Director of Corporate Resources be authorised to manage the Fund's cash balances in accordance with the policy set out in the report.

128. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

129. **MINUTES OF PREVIOUS MEETING HELD ON 4 NOVEMBER 2016 (EXEMPT APPENDIX)**

The exempt minutes of the Pension Fund Panel and Board held on 4 November 2016 were confirmed.

130. **INVESTMENT: CASH MONITORING AND ANNUAL INVESTMENT STRATEGY 2017/18 APPENDIX**

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 11 in the Minute Book) supporting the Pension Fund's Annual Cash Investment Strategy. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

131. **INVESTMENTS - INVESTMENT UPDATE INCLUDING RECENT PERFORMANCE RETURNS**

The Panel and Board considered the exempt report from the Director of Corporate Resources (Item 12 in the Minute Book) updating the Panel and Board about the progress of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

132. **INVESTMENT – ALTERNATIVE INVESTMENTS PORTFOLIOS UPDATE**

The Panel and Board considered the exempt report from the Director of Corporate Resources (Item 13 in the Minute Book) updating the Panel and Board on the Pension Fund's alternative investment portfolios. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Tuesday 31 January 2017.

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

p C. Carter	p P. Latham
p C. Connor	p T. Rolt
p A. Gibson	p B. Tennent
p A. Joy	p T. Thacker

Employer Representatives (Co-opted members):

p Councillor P. Giddings (Test Valley Borough Council)
a Councillor H. Mason (Portsmouth City Council)
p Mr D. Robbins (Churchers College)

Scheme Member Representatives (Co-opted members):

p Dr C. Allen (pensioners' representative)
p Mr N. Wood (substitute scheme members representative, substituting for Mr P. Reynolds)
p Mrs V. Arrowsmith (deferred members' representative)

Independent Adviser:

a C. Dobson

133. **BROADCASTING ANNOUNCEMENT**

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

134. **APOLOGIES FOR ABSENCE**

Cllrs Mason, Rust, Greenwood and Mrs Dobson sent their apologies.

135. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5,

Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

136. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 16 December 2016 were confirmed.

137. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman thanked members for their attendance at this specially called meeting of the Panel and Board.

138. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

139. **MINUTES OF PREVIOUS MEETING HELD ON 16 December 2016 (EXEMPT APPENDIX)**

The exempt minutes of the Pension Fund Panel and Board held on 16 December 2016 were confirmed.

140. **GOVERNANCE: LGPS INVESTMENT POOLING INTER-AUTHORITY AGREEMENT**

The Panel and Board considered the exempt report from the Director of Corporate Resources (Item 7 in the Minute Book) detailing the draft Inter-Authority Agreement for the ACCESS pool. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

141. **INVESTMENTS - INVESTMENT UPDATE INCLUDING RECENT PERFORMANCE RETURNS**

The Panel and Board considered the exempt report from the Director of Corporate Resources (Item 8 in the Minute Book) updating the Panel

and Board about the progress of the Pension Fund's investments.
[SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT
INFORMATION]

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