

# Public Document Pack



## NOTICE OF MEETING

<b>Meeting</b>	Audit Committee
<b>Date and Time</b>	Thursday, 23rd July, 2020 at 2.00 pm
<b>Place</b>	Virtual Teams Meeting - Microsoft Teams
<b>Enquiries to</b>	members.services@hants.gov.uk

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

## FILMING AND BROADCAST NOTIFICATION

This meeting is being held remotely and will be recorded and broadcast live via the County Council's website.

### AGENDA

#### 1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

#### 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 HELD ON 20 FEBRUARY 2020 (Pages 5 - 10)

To confirm the minutes of the previous meeting.

#### 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. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS (Pages 11 - 20)**

To receive the quarterly update on the County Council's use of regulated investigatory powers.

**7. EXTERNAL AUDIT PLANNING REPORT UPDATE 2019/20 (Pages 21 - 64)**

To receive an update to the external audit plan for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2020.

**8. INTERNAL AUDIT ANNUAL REPORT AND OPINION 2019/20 (Pages 65 - 86)**

To consider a report of the Deputy Chief Executive and Director of Corporate Resources outlining the annual report and opinion of the Chief Internal Auditor regarding the County Council's framework of risk management, internal control and governance.

**9. INTERNAL AUDIT PLAN 2020/21 (Pages 87 - 122)**

To consider a report of the Deputy Chief Executive and Director of Corporate Resources providing an overview of the County Council's Internal Audit Plan.

**10. INTERNAL AUDIT CHARTER 2020/21 (Pages 123 - 136)**

To consider a report of the Deputy Chief Executive and Director of Corporate Resources presenting the Internal Audit Charter 2020/21 in accordance with the requirements of the Public Sector Internal Audit Standards.

**11. ANNUAL GOVERNANCE REPORT (Pages 137 - 158)**

To consider the report of the Deputy Chief Executive and Director of Corporate Resources and Director of Transformation and Governance and presenting the Annual Governance Statement.

**12. ANNUAL TREASURY OUTTURN REPORT 2019/20** (Pages 159 - 176)

To consider a report of the Director of Corporate Resources – Corporate Services giving details on treasury activity during 2019/20.

**13. HIGHER YIELDING STRATEGY UPDATE** (Pages 177 - 190)

To consider a report of the Deputy Chief Executive and Director of Corporate Resources providing an update on performance against the higher yielding strategy and ongoing review and scrutiny of these investments.

**14. RELATED PARTY TRANSACTIONS DISCLOSURE 2019/20 UPDATE**  
(Pages 191 - 196)

To consider a report of the Deputy Chief Executive and Director of Corporate Resources presenting the current position regarding the 2019/20 related party declaration returns.

**15. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 13 DECEMBER 2019 (LESS EXEMPT)** (Pages 197 - 208)

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 13 December 2019.

**16. EXCLUSION OF THE PRESS AND PUBLIC**

To resolve that the public be excluded from the meeting during the following item 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 this item 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 cases, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the exempt minutes.

**17. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 13 DECEMBER 2019 (EXEMPT)** (Pages 209 - 214)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 13 December 2019.

**18. CORPORATE RISK REGISTER AND APPROACH TO COVID-19 RISK**  
(Pages 215 - 234)

To consider a report of the Director of Transformation and Governance providing an overview of and update against the key aspects of the County Council's risk management arrangements.

**ABOUT THIS AGENDA:**

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

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.



# Public Document Pack Agenda Item 3

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL  
held at the castle, Winchester on Thursday, 20th February, 2020

Chairman:

\* Councillor Keith Evans

* Councillor Alexis McEvoy	Councillor Rob Mocatta
* Councillor Dominic Hiscock	Councillor Tom Thacker
* Councillor Keith House	
* Councillor Mark Kemp-Gee	
* Councillor Derek Mellor	
Councillor Floss Mitchell	

\*Present

## 150. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Floss Mitchell, Rob Mocatta and Tom Thacker.

## 151. **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.

## 152. **MINUTES OF PREVIOUS MEETING HELD ON 19 DECEMBER 2019**

The minutes of the meeting held on 19 December 2019 were agreed as a correct record and signed by the Chairman.

## 153. **DEPUTATIONS**

There were no deputations.

## 154. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements.

**155. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS**

The Committee considered the report of the Director of Transformation and Governance regarding the County Council's use of regulated investigatory powers.

Members heard that, whilst the Director of Transformation and Governance was required to report upon the use of powers quarterly, there had been no surveillance activity since the first quarter of the year.

In response to Members questions it was heard that the limited use of surveillance powers was resultant from the use of difference methodology for monitoring offences, which meant surveillance was often reserved as a last resort.

The Audit Committee determined to continue to receive quarterly reports regarding the County Council's use of regulated investigatory powers, recognising the importance of maintaining an oversight of their use. To save officer time it was agreed, however, that where powers had not been used in the previous quarter an officer did not need to attend the Audit Committee meeting to talk to the report

**RESOLVED:**

That the Audit Committee receives and notes the data regarding the County Council's use of surveillance powers.

That the Audit Committee continue to receive quarterly reports regarding the County Council's use of regulated investigatory powers, however an officer will only be required to talk to a report where powers have been used in the previous quarter.

**156. TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21 TO 2022/23**

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources presenting the Treasury Management Strategy Statement for 2020/21 to 2022/23.

Members heard that:

- The Capital and Investment Strategy had been presented to Full Council in February.
- Base rates were predicted to hold at current levels, with a continued period of low interest rate and inflation likely.
- Capital financing requirement was expected to rise and then fall in line with the Capital Programme.
- The cost of borrowing from the PWLB had increased, however this was not of significant concern as Hampshire County Council had maintained

its strategy to use internal borrowing, if required, to meet the capital programme.

- Whilst the bail-in risk had increased from 14% to 23% there were mitigations in place to spread any risk. Advice from Arlingclose was that current level of bail-in risk did not present any concern.
- Pre-payment of pension contributions would deliver £9m of saving over 3 years. Further the positive valuation of the pension fund had allowed the contribution of £15m per year for 3 years into the budget bridging reserve.
- The Capital and Investment programme allocated £235m to investments targeting higher yields in 2019/20, of which £201m had been invested and the remainder earmarked for investment. Without these investments, Members heard that the income from treasury investments would have been significantly lower.
- An additional £2m had been added to the Investment risk reserve to mitigate investment risks, including those associated with the changes to the accounting for pooled fund investments introduced under IFRS 9.

Members raised questions regarding the performance of investments and the Council's approach to risk when making investment decisions. In response it was heard that:

- The County had benchmarked its investment performance with other local authorities and had generally performed well against others.
- It was recognised that pooled funds hadn't delivered significant capital returns, however the investments supported cash-flow management and provided income generation to the revenue budget.
- The selling of pooled shares was delegated to the Deputy Chief Executive and Director of Corporate Resources to enable the effective management of cash-flow.
- The savings delivered through pre-payment of pension contributions had been considered against potential cash investment outcomes over the same 3-year period.
- Officers would bring back a report to the next Audit Committee meeting providing further information on investment management, potential for enhanced scrutiny by Arlingclose and other possible benchmarks for comparison of investment performance.

A question was also raised regarding how investment opportunities were assessed for their impact on climate change. It was heard that whilst potential return was key in all investments, all pooled investments had been assessed to ensure they had a responsible investment policy.

RESOLVED:

That the Audit Committee notes the following recommendations that have been made to Cabinet:

- That the Treasury Management Strategy for 2020/21 (and the remainder of 2019/20) be approved.
- That authority is delegated to the Deputy Chief Executive and Director of Corporate Resources to manage the County Council's investments and

borrowing according to the Treasury Management Strategy Statement as appropriate.

- That £2m is transferred to the Investment Risk Reserve as part of the Revised Budget for 2019/20.

**157. HAMPSHIRE COUNTY COUNCIL AUDIT PLANNING REPORT 2019/20**

In relation to this item, Councillor House declared a non-pecuniary interest as a Board member of the Public Sector Audit Appointments (PSAA) who appoint Ernst and Young as a principal body audit firm.

The Committee received the annual audit planning report for 2018/19 from the external auditors and Members heard that:

- The risks identified relating to misstatements due to fraud or error and inappropriate capitalisation of revenue expenditure were mandatory audit requirements, and Members were reassured that no concerns had been identified in respect of Hampshire County Council.
- Valuation of land and buildings would be a focus of the audit as they represented a significant balance on the council balance sheet. Pension Liability Valuation would also feature and would assess assumptions and estimates made.
- IFRS 16 leases was a new accounting standard for local authorities from 2020/21 and the auditors would review the readiness statement which the Council were required to prepare.

RESOLVED:

That the Audit Committee receives and notes the Hampshire County Council Audit Planning Report for 2019/20.

**158. HAMPSHIRE PENSION FUND AUDIT PLANNING REPORT 2019/20**

In relation to this item, Councillor House declared a non-pecuniary interest as a Board member of the Public Sector Audit Appointments (PSAA) who appoint Ernst and Young as a principal body audit firm.

The Committee received the annual audit planning report for 2018/19 from the external auditors and Members heard that:

- Valuation of complex investments had been identified as a significant risk. Level 3 investments were based on assumptions, as there was no observable market data for the valuation of these investments and it was considered that market volatility could significantly shift such assumptions. The inherent risk of non-quoted pooled and property investments was also identified.
- The auditor would approach custodians and fund managers to seek written third party confirmation of valuations at year end and would also compare market movement to the fund movement to ensure its performance was inline.

RESOLVED:

That the Audit Committee receives and notes the Hampshire County Council Audit Planning Report for 2019/20.

159. **YEAR-END AUDIT TIMETABLE AND COSTS**

In relation to this item, Councillor House declared a non-pecuniary interest as a Board member of the Public Sector Audit Appointments (PSAA) who appoint Ernst and Young as a principal body audit firm.

The Committee were presented with a letter from Ernst and Young setting out their national position regarding the timetable for year-end audit and costs. Members heard that:

- The letter was being shared at a national level to all organisations who had appointed Ernst and Young under PSAA contracts.
- The letter expressed concerns from the auditors regarding pressures generated by increasing focus from the Financial Reporting Council and the demands placed upon auditors. The letter also highlighted a number of issues and challenges being faced nationally, including the complexity of local authority auditing, shortage of financial reporting skills and staff retention.
- The letter noted that audit fees hadn't been moved or updated to reflect such demands. Members heard that the current audit approach for Hampshire County Council and the Hampshire Pension Fund had been adapted to the efficiency of the shared services arrangements. It was also observed that the audit timetable in Hampshire was aligned with Fire and Police to enable efficiencies in the year-end sign off process.

Whilst recognising the pressure on auditors and changes within the audit environment, Members expressed concern regarding the suggestion of changes to pricing and timescales for delivery as both were agreed when Ernst and Young bid for and were awarded the contract.

RESOLVED:

That the Audit Committee note the letter.

160. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 8 NOVEMBER 2019 (LESS EXEMPT)**

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 8 November 2019.

**161. EXCLUSION OF THE PRESS AND PUBLIC**

The press and public were excluded from the meeting during the following items of business, as it was 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 have been disclosure to them of exempt information within Paragraphs 3 and 5 of Part I 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 outweighed the public interest in disclosing the information, for the reasons set out in the minutes.

**162. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 8 NOVEMBER 2019 (EXEMPT)**

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 8 November 2019.

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Chairman, 21 May 2020

## HAMPSHIRE COUNTY COUNCIL

### Report

<b>Committee/Panel:</b>	Audit Committee
<b>Date:</b>	23 July 2020
<b>Title:</b>	Information Compliance - Use of Regulated Investigatory Powers
<b>Report From:</b>	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 – Head of Risk and Information Governance

**Tel:** 0370 779 1365      **Email:** [julie.chambers@hants.gov.uk](mailto:julie.chambers@hants.gov.uk)  
[peter.andrews@hants.gov.uk](mailto:peter.andrews@hants.gov.uk)

#### 1. Summary

- 1.1. The purpose of this paper 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. This report confirms that there has been 1 use of surveillance powers and 1 application for Communications Data in 2019-20 (a slight increase over 2018/19).
- 1.3. The level of use of surveillance powers for 2019-20 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 July 2019 a report was presented to the Committee detailing the County Council's use of surveillance powers in 2018-2019. This report (in addition to any quarterly reports) presents information for the period 2019-2020. The last quarterly report to this Committee was 20 February 2020.
- 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 two senior officers 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 the Investigatory Powers Commissioner's Office. This Office was formed in September 2017 as a result of the introduction of the Investigatory Powers Act 2016, and is an amalgamation of three separate commissioners. These were the Office of the Surveillance Commissioner; the Interception of Communication Commissioner's Office, and the Intelligence Services Commissioner. In his regulatory function, the Assistant Surveillance Commissioner reviews the County Council's use of directed surveillance, covert human intelligence source (CHIS), and CCTV systems under the Regulation of Investigatory Powers Act.
- 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. This is subject to change depending upon the nature of the investigations that are identified through the use of the IOM.
- 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 affect the County Council's 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.

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).

In the 10 year period since 2008 surveillance activities have resulted in over 46 written warning, 13 simple cautions and 44 prosecutions, along with the seizure of fake goods valued at over £630,000.

2.10. The approvals for surveillance for the period of April 2019 to March 2020 are shown in Appendix 1.

### **3. Value for Money**

3.1. In the period of April 2019 to March 2020 all RIPA activity has been conducted by the Trading Standards Service which operates the IOM 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 according 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, it 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.

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. This is an approach that was endorsed by the Assistant Surveillance Commissioner in his most recent report.

### **4. Continued Use of Surveillance Powers**

4.1. In order to continue to be able to use its surveillance powers under 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 (2019-2020) was presented and approved by the Executive Member for Policy and Resources in December 2019. A Policy for use in 2020/21 will be presented to the Executive Member for Policy and Resources in September 2020.

## **5. Use of Camera Systems**

- 5.1. Although not covered under 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 Investigatory Powers Commissioner's Office.

## **6. Consultation and Equalities**

- 6.1. Where a consultation has been undertaken insert an analysis of the consultation responses and refer to further details of the consultation which should be included in a separate appendix.
- 6.2. If equality impacts have been identified in the Equality Statement in integral Appendix B highlight any particular issues, explain any proposed mitigation and consider any other relevant factors that have been taken into consideration in formulating the recommendation. See the [Report Writing Guide](#) for more information.

## **7. Finance**

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

## **8. Performance**

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

## **9. Conclusions**

- 9.1. 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.
- 9.2. 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.

## **10. Recommendation**

- 10.1. 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.
- 10.2. 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.

CORPORATE OR LEGAL INFORMATION:

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	no
<b>People in Hampshire live safe, healthy and independent lives:</b>	yes
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no

**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:**

### **11. Equality Duty**

11.1. 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.

### **12. Equalities Impact Assessment:**

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

### **13. Impact on Crime and Disorder:**

13.1. 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.

### **14. Climate Change:**

14.1. 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

14.2. 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 2019 – 31 March 2020)**

**Direct Surveillance**

2019-20 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	
<b>Total -</b>	0	0	0	

**Covert Human Intelligence Source (CHIS)**

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

**Communications Data**

Quarter	Number of Applications	Number of Specific Notices	Offences related to:
1	0	1	Doorstep crime
2	0	0	
3	0	0	
4	0	0	
<b>Total -</b>	0	1	

**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

### Report

<b>Committee/Panel:</b>	Audit Committee
<b>Date:</b>	23 July 2020
<b>Title:</b>	External Audit Planning Report Update 2019/20
<b>Report From:</b>	Ernst and Young LLP (external auditors)

**Contact name:** Sarah Croft

**Tel:** 02380 382000

**Email:** scroft@uk.ey.com

#### **Purpose of this Report**

1. The purpose of this report is to provide the Audit Committee with an update to the external audit plan for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2020.

#### **Recommendation**

2. That the Audit Committee receives and notes the update to the Hampshire County Council Audit Planning Report for 2019/20, as attached at Appendix 1

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no

<b>Section 100 D - Local Government Act 1972 - background documents</b>	
<p>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.)</p>	
<u>Document</u>	<u>Location</u>
None	

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) 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 protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are 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 in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

The recommended action will not impact on groups with protected characteristics in any way.

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Hampshire County  
Council

Audit planning report -  
update

Year ended 31 March 2020

July 2020



Audit Committee  
Hampshire County Council  
The Castle  
Winchester  
Hampshire  
SO23 8UJ

13 July 2020

Dear Members

Audit planning report

We are pleased to attach our an update to our Audit Plan reported to you in January 2020. Following the coronavirus outbreak (Covid-19) in March 2020, we have re-assessed our audit scope and strategy. We provide an update to the significant accounting and auditing matters, and audit approach outlined in the original Audit Plan. We have also included a section with an overview of our progress against our audit plan (Appendix D).

This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

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

We welcome the opportunity to discuss this report with you on 23 July 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

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01	Overview of our 2019/20 audit strategy	02	Audit risks	03	Value for Money Risks	04	Audit materiality	05	Scope of our audit
									
	06	Audit team	07	Audit timeline	08	Independence	09	Appendices	

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

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

This report is made solely to the Audit Committee and management of Hampshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hampshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hampshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





01

# Overview of our 2019/20 audit strategy





# Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

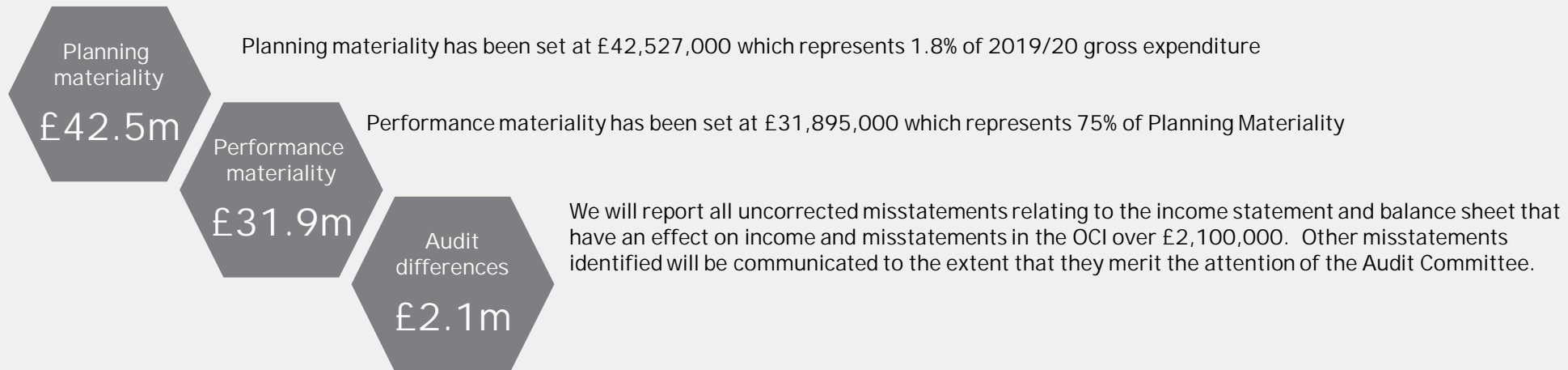
Risk / area of focus	Risk identified	Change from PY	Details
Investment Property Valuation	Significant Risk	New risk identified as a result of COVID-19	<p>Covid-19 was declared a global pandemic on 11 March 2020 and since March, Covid-19 has had an impact on the investment property market. There has been an impact on the occupation of buildings due to forced closures and rental income is expected to fall as tenants default on their rents.</p> <p>In addition, valuers are including 'material valuation uncertainty' clauses in their valuation reports which indicate that there is less certainty over the valuations, and more valuer judgement is required as there is less transactional evidence to support market assumptions.</p>
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	<p>As identified in ISA 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 would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.</p>
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Our judgement is that this risk at this Council relates to the improper capitalisation of revenue expenditure.</p>
Valuation of Land and Buildings	Inherent risk	Focus now solely on valuation of land and buildings as increase in IP Valuation risk.	<p>Property, Plant and Equipment Land and Buildings (L&amp;B) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end L&amp;B balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk that L&amp;B may be under/overstated or the associated accounting entries incorrectly posted.</p> <p>We are required us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>

# Overview of our 2019/20 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Pension Accounting	Inherent Risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £1,327 million.</p> <p>The information disclosed is based on the IAS 19 report issued by the actuary to the County Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.</p> <p>We are required to undertake procedures on the use of experts and the assumptions underlying fair value estimates.</p>
Private Finance Initiatives (PFI)	Inherent risk	New risk identified this year	<p>There is a high level of estimation and complexity involved with this estimate. In addition, the amount is significant to the Council and as such a small variation in the estimate can have a significant impact.</p>

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## Materiality – updated for the draft financial statements



# Overview of our 2019/20 audit strategy

## Audit scope

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

- our audit opinion on whether the financial statements of Hampshire County Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

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

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

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

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By considering these inputs, our audit focuses on the areas that matter and our feedback is more likely to be relevant to the Council.

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 July 2020.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9, 15 and 16 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these are relevant in the context of Hampshire County Council's audit, we will discuss these with management as to the impact on the scale fee.

## Audit team changes

Key changes to our team.



Kevin Suter, Associate Partner

- Kevin takes over from Maria Grindley as the Engagement Lead.
- Kevin has significant public sector audit experience over 20 years, with a portfolio of Local Authorities, Police and Crime Commissioner & Constabularies, Local Government Pension Fund and National Park Authority audits.



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# 02 Audit risks





## Our response to significant risks

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

	What is the risk?	What will we do?
<p>Misstatements due to fraud or error</p> <p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements.</p>	<p>As identified in ISA 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 would otherwise appear to be operating effectively.</p> <p>We identify and respond to this risk on every audit engagement.</p> <p><u>Covid-19 update:</u> No change to our original assessment at this stage. We will discuss with management what steps were taken to maintain a robust control environment during the disruption</p>	<ul style="list-style-type: none"> <li>• Inquire of management about risks of fraud and the controls put in place to address those risks.</li> <li>• Understand the oversight given by those charged with governance of management's processes over fraud.</li> <li>• Consider of the effectiveness of management's controls designed to address the risk of fraud.</li> </ul> <p>Perform mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul style="list-style-type: none"> <li>• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Assessing accounting estimates for evidence of management bias, and</li> <li>• Evaluating the business rationale for significant unusual transactions.</li> </ul> <p>We will utilise our data analytics capabilities to assist with our work.</p> <p>Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.</p>

## Our response to significant risks

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

Inappropriate capitalisation of revenue expenditure

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

The risk in local government is in areas where management make judgements that impact whether material items of expenditure are financed from capital or revenue resources. This would be effected by management override of journal controls.

As such we associate this risk with capital additions.

Covid-19 update: No change to our original assessment, since proposed original testing will still cover this area.

### What will we do?

For a sample of recorded capital additions we will examine invoices, capital expenditure authorisations and other data that support the appropriateness of these additions.

We will ensure that the items are capital in nature, and do not include revenue items.

We will utilise our data analytics capabilities to assist with our work through identifying high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

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### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income accounts. The relevant accounts we associate the revenue and expenditure recognition risk to had the following balances in the 2018-19 financial statements:

Cost of services expenditure:  
£2,165 million

PPE additions: £147.6 million

## Other areas of audit focus

### What is the risk/area of focus?

#### Valuation of Land & Buildings and Investment Property

Land and Buildings is the most significant balance in the Council's Balance Sheet. The valuation of Land and Buildings (L&B) and Investment Property (IP) is complex and subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

**C**ovid-19 update: Related constraints on property valuation nationally, the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets may cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in some final year-end valuation reports produced by valuers.

Covid-19 has had an impact on the investment property market. There has been an impact on the occupation of buildings due to forced closures and rental income is expected to fall as tenants default on their rents.

Given the significant change in market conditions since the onset of Covid-19, investment property valuation will constitute a significant risk. This is due to the uncertainty in the financial and property markets.

### What will we do?

We will:

- Consider the competence, capability and objectivity of the Council's internal valuer;
- Consider the scope of the valuer's work;
- Ensure L&B assets have been revalued within a 5 year rolling programme as required by the Code;
- Ensure IP has been annually revalued as required by the Code;
- Consider if there are any specific changes to assets that should have been communicated to the valuer;
- Sample test key inputs used by the valuer when producing valuations;
- Consider the results of the valuer's work;
- Challenge the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists (where necessary);
- Test journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;
- Test a sample of assets revalued in year to confirm that the classification and valuation basis is appropriate and the accounting entries are correct; and
- Review assets that are not subject to valuation in 2019/20 to confirm the remaining asset base is not materially misstated and classification correct.

Additional procedures in response to our significant risk include:

- Consider the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions;
- Ensure the appropriate disclosure has been made in the accounts concerning the material uncertainty;
- Further input engaged from EY Real Estates, our internal specialists on asset valuations; and
- Consider the wider impact of material uncertainty on whether reasonable assurance over valuation can be obtained.

## Other areas of audit focus

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

### What is the risk/area of focus?

#### Pension Liability Valuation

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

The Council's pension fund deficit is a material estimated liability and the Code requires that this liability be disclosed in the Council's balance sheet. At 31 March 2019 this totalled £1,327 million.

The information disclosed is based on the IAS 19 report issued by the actuary to the County Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

The pension fund is subject to a triennial valuation this year.

ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

In the prior year the 'McCloud' judgement impacted the estimate and resulted in an amendment of the net pension liability. We anticipate this will again be a key assumption in estimating the pension liability. We would expect the Authority's actuary to be basing their assumptions taking into account the Authority's specific membership profile and how it has been impacted by the judgement. We also note that there may be further developments in this area, potentially again coming after the balance sheet date.

### What will we do?

We will:

- Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council's scheme members, including any additional assurances required regarding membership data used in the triennial valuation;
- Assess the work of the LGPS Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Review Hampshire Pension Fund's financial statements and compare the year end asset value with the estimate used by the actuary when producing the Council's IAS 19 report; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

COVID-19 update: Volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities, which needs to be considered by the CC. There is no change to the definition of the risk identified or procedures we will perform.







03

# Value for Money Risks





## Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019-20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

When considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

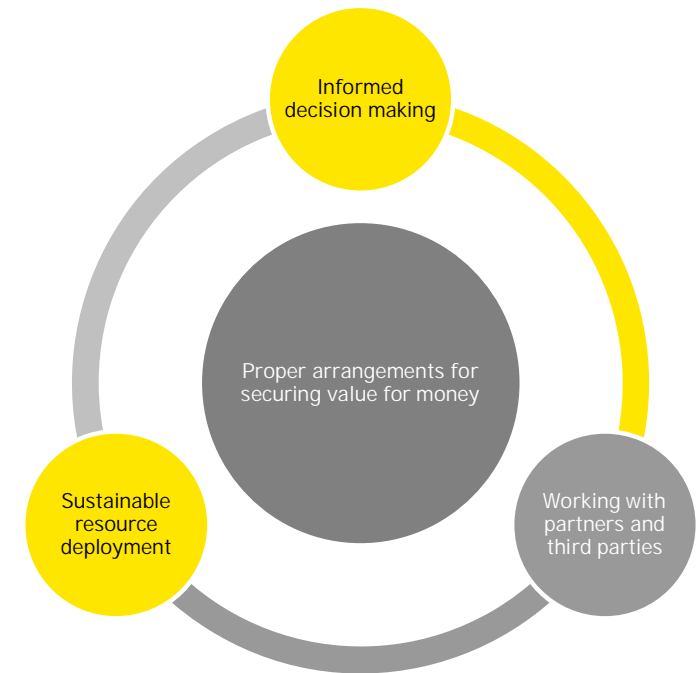
"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks which we view as relevant to our value for money conclusion. We will continue to update our risk assessment throughout the course of our audit.

### Covid-19 update

No change to our original assessment or approach.







04

# Audit materiality



# Materiality

## Materiality – updated for the draft financial statements

For planning purposes, materiality for 2019/20 has been set at £42,527,000. This represents 1.8% of the Council’s gross expenditure taken from the draft financial statements. This is based on the rationale that’s public sector organisation do not have a focus on earnings profits. We consider industry factors, and using gross revenue expenditure is the industry norm.

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

## Key definitions

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

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £31,895,000 which represents 75% of planning materiality.

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

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

**Specific materiality** – We have set a materiality of £1k for officers and senior employees’ remuneration and audit fees disclosures. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these.

**COVID-19 update:** We have considered the materiality levels we reported to you in our original audit plan (as noted on this slide), and whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the values for planning materiality, performance materiality and our audit threshold for reporting differences remain appropriate.





05

## Scope of our audit



# Our Audit Process and Strategy

## Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also 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; and
- 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; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

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

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

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

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

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to rely on controls, both manual and IT:

- Accounts receivable;
- Accounts payable;
- Payroll;
- Cash and bank;

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2019/20, Hampshire County Council Integrated business centre (IBC) have commissioned an ISAE 3402 type 2 report from EY's Financial Audit IT (FAIT) team. The ISAE 3402 report provides the users of the IBC with assurance over the suitability of the design and existence of controls and on the operating effectiveness of these controls during the financial year.

Analytics:

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

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

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

Internal audit:

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



## Changes in audit processes

### Audit Process overview

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy are as follows:

- **Going concern:** management's assessment of whether the Council is a going concern will need to consider the impact of the current conditions on the Council's future performance. Additional narrative disclosure will be required, including on the future principal risks and uncertainties, including the impact on operations for 2020/21 and beyond.
- **Annual Governance Statement:** the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

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**Information Produced by the Entity (IPE):** There is an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the likely inability of the audit team to verify original documents or re-run reports on-site from the CC's systems. We will:

- Use the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we're auditing; and
- Agree IPE to scanned documents or other system screenshots.
- **Post balance sheet events:** There is an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure will need to reflect the specific circumstances of the Council. We will review the CC's approach to identifying and disclosing events after the balance sheet date.
- Additional EY consultation requirements concerning the impact on auditor reports if necessary.

## Changes in audit processes (continued)

Other ways in which COVID-19 could impact the financial statements. These may include, but not be limited to:

- Receivables – there may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations.
- Holiday and sickness pay – the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
- Government support – any Covid-19 specific government support is likely to be a new transaction stream and may require development of new accounting policies and treatments

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on management's ability to produce the financial statements and our ability to complete the audit to the planned timetable. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

The changes to audit risks and audit approach will change the level of work we perform. This may impact the audit fee. We will agree changes to the audit fee with management and report back to the Audit Committee in our Audit Results Report.



06

Audit team



# Audit team

## Audit team structure:

Kevin Suter\*  
Associate Partner

Sarah Croft  
Senior Manager

Jack Dunkley  
Manager

EY Real Estates

EY Actuaries

## Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2019/20 audit.

We will continue to keep our audit approach under review to streamline it where possible.

\* Key Audit Partner

## Use of specialists

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

Area	Specialists
Pension valuation	Management Specialist – AoN Hewitt PwC (Consulting Actuary to the NAO) EY Specialist - EY actuaries
PFI valuation	Management Specialist - Capita
RE valuation Page 49	Management Specialist - Management’s in-house valuation experts EY Specialist - EY real estates

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

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

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





# 07 Audit timeline







# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Due to the disruption caused by COVID-19, the statutory dates for publishing the accounts were changed this year. The deadline for publishing the audited accounts has been moved to 30 November 2020. Acknowledging the additional risks, and the additional time taken to complete an audit remotely, it was agreed with management to revise the signing timetable to September 2020.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	November		
Walkthrough of key systems and processes	November - December		
Development of audit plan	January		Audit Planning Report
Testing of routine processes and controls	February	Audit Committee	
Interim audit testing	February - March		
Year end audit Audit Completion procedures	September	Audit Committee	Audit Results Report Audit opinions and completion certificates
Year end audit Audit Completion procedures	October	Audit Committee	Annual Audit Letter

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08

# Independence





## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>The overall assessment of threats and safeguards;</p> <p>Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

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

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

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

## Relationships, services and related threats and safeguards

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

### Overall Assessment

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

### Self interest threats

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

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the Financial Reporting Council's Ethical Standard or the National Audit Office's Auditor Guidance Note 01 and you have no policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 63%. All fees are set out in Appendix A.

The only non-audit fees relate to the independent Service Organisation Controls Type 2 Assurance Report for the Hampshire Integrated Business Centre (IBC).

From 2019/20 (and future years), the Council would like to obtain independent third party assurances over the financial reporting controls in place at the IBC. This is in respect of services provided to the IBC's clients. The Council would like to obtain an independent Service Organisation Controls (SOC) 1 Type 2 assurance report covering the relevant financial year. This will need to be performed under the International Standard for Assurance Engagements (ISAE) No. 3402 issued by the International Auditing and Assurance Standards Board (IAASB). As this will be a Type 2 engagement, the review will focus on the design and operating effectiveness of controls for the relevant financial year.

To ensure our independence as external auditor to Hampshire County Council is not impaired we are required to seek approval from PSAA (Public Sector Audit Appointments Ltd) to provide these non-audit services. This approval has been requested.

We have adopted the following safeguards as a result:

- The work will be led and delivered by a separate Service Organisation Controls (SOC) reporting team. Members of the existing audit team at Hampshire County Council will not work on this project. The remuneration of the Engagement Lead and the audit team are not impacted by this project.
- The estimated fee is in line with market rates for this type of engagement. The engagement will have a clearly defined scope, as set out in the scope of work and this work would not influence our conduct of or the outcome of the audits.
- The SOC report issued will be generic in nature and not specific to a particular customer of IBC. The controls reviewed will be homogenous controls.
- This work is limited to review of controls within the end to end processes at the IBC. It does not include any aspects of decision-making on behalf of the IBC or the Council. It will not involve giving and advice in relation to decisions the IBC/ Council may take.

## Relationships, services and related threats and safeguards

### Self interest threats (continued)

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

### Self review threats

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

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

### Management threats

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

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

### Other threats

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

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

## Other communications

### EY Transparency Report 2019

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2019 and can be found here:

[https://www.ey.com/en\\_uk/who-we-are/transparency-report-2019](https://www.ey.com/en_uk/who-we-are/transparency-report-2019)





09

Appendices



## 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.

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
		£	£
Total Fee	89,720	89,720	91,570*
Total audit	89,720	89,720	91,570*
Other non-audit services	56,500	N/A	43,000
Total other non-audit services	56,500	N/A	43,000
Total fees	146,220		132,720

*All fees exclude VAT*

- For 19/20 the scale fee may be impacted by a range of factors (see page 7), which we will update the committee on, as the audit progresses.
- We are in discussions with management and PSAA regarding changes to the scale fee due to significant changes in audit procedures and regulation since the award of the PSAA contract. We are yet to agree an update, and discussions continue.
- The planned fee does not include changes due to the updated risk assessment as a result of Covid-19. Again, we have raised this with management and discussions will continue.
- \* the variation to 18/19 scale fee is still to be approved by PSAA

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The production of materially accurate draft accounts;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.





If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

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




# Required communications with the Audit Committee

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

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report	
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report	
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report	
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report	






## Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>	Audit results report
Related parties	<ul style="list-style-type: none"> <li>• Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Planning Report Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report



## Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>	Audit results report	
Internal controls	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report	
Representations	Written representations we are requesting from management and/or those charged with governance	Assurance letter	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report	
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit plan is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit planning report Audit results report	
Certification work	Summary of certification work undertaken	Certification report	

## Additional audit information

### Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

## Additional audit information (continued)

### Purpose and evaluation of materiality

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

Materiality determines:

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

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

## Appendix D - Progress on 2019/20 Audit

The following 'dashboard' summarises the progress of the 2019/20 audit after our interim audit visit. It seeks to provide the Audit Committee with an overview of the progress of the audit to date, and any issues arising.

Audit Area	Status	Details
Walkthroughs of key systems	Completed	<ul style="list-style-type: none"> <li>- Accounts Payable</li> <li>- Accounts Receivable</li> <li>- Pensions</li> <li>- Payroll</li> <li>- Cash &amp; Bank</li> <li>- Property, Plant &amp; Equipment</li> <li>- Treasury Management</li> <li>- CONFIRM</li> <li>- SWIFT</li> <li>- Financial Statement Close Process</li> </ul>
Interim substantive testing	In progress	<p>We have completed testing on the following areas and note no issues:</p> <ul style="list-style-type: none"> <li>- Additions</li> <li>- Disposals (not material)</li> </ul> <p>- We have also started work on PPE Valuation and Existence testing which is ongoing but good progress has been made.</p> <p>- We have completed period 1-9 testing on payroll using our analytics tools and programme and have noted no issues</p> <p>- We have completed period 1-9 testing on income and expenditure and have noted no issues</p>
Year-end substantive testing	In progress	<p>Our year-end audit fieldwork is well underway. At this stage, we have nothing to bring to your attention.</p>
Other procedures	Completed	<p>We have completed testing on the following procedures and have encountered no issues:</p> <ul style="list-style-type: none"> <li>- Journal testing</li> <li>- Contract Review</li> </ul>

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## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker</b>	Audit Committee
<b>Date:</b>	23 July 2020
<b>Title:</b>	Annual Internal Audit Report & Opinion 2019-20
<b>Report From:</b>	Deputy Chief Executive and Director of Corporate Resources

**Contact name:** Neil Pitman

**Tel:** 01962 845139

**Email:** Neil.pitman@hants.gov.uk

### Purpose of this Report

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 2020.

### Recommendation(s)

2. That the Audit Committee approves the Annual Internal Audit Report & Opinion 2019-20 as attached.

### Contextual Information

3. 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.
4. The Annual Report for 2019/20 (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 2020.
5. The Audit Committee's attention is drawn to the following points:

- Internal audit was compliant with the Public Sector Internal Audit Standards during 2018/19;
  - The revised internal audit plan for 2018/19 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.
6. 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.



**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	no
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b> 'Board' approval of the Internal Audit Charter, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards	

**Other Significant Links**

<b>Links to previous Member decisions:</b>	
<u>Title</u> Internal Audit Plan	<u>Date</u> 23 July 2019
<b>Direct links to specific legislation or Government Directives</b>	
<u>Title</u>	<u>Date</u>

<b>Section 100 D - Local Government Act 1972 - background documents</b>	
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	

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) 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 protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are 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 in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

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

# Annual Internal Audit Report & Opinion

2019 - 20

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’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].



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

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



## 2. Internal Audit Approach

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

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

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 organisation’s 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 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.

The significant impact and subsequent challenges posed by the coronavirus pandemic (Covid-19), both to the way we work and the delivery of Authority’s services, has resulted in some delays in completing planned 2019/20 reviews, particularly those planned for completion in the latter part of the year. However, this delay has not inhibited my ability to provide an opinion on the operation of the organisation’s framework of risk management, governance and control during 2019-20.

***Annual Internal Audit Opinion 2019-20***

*“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 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.”*

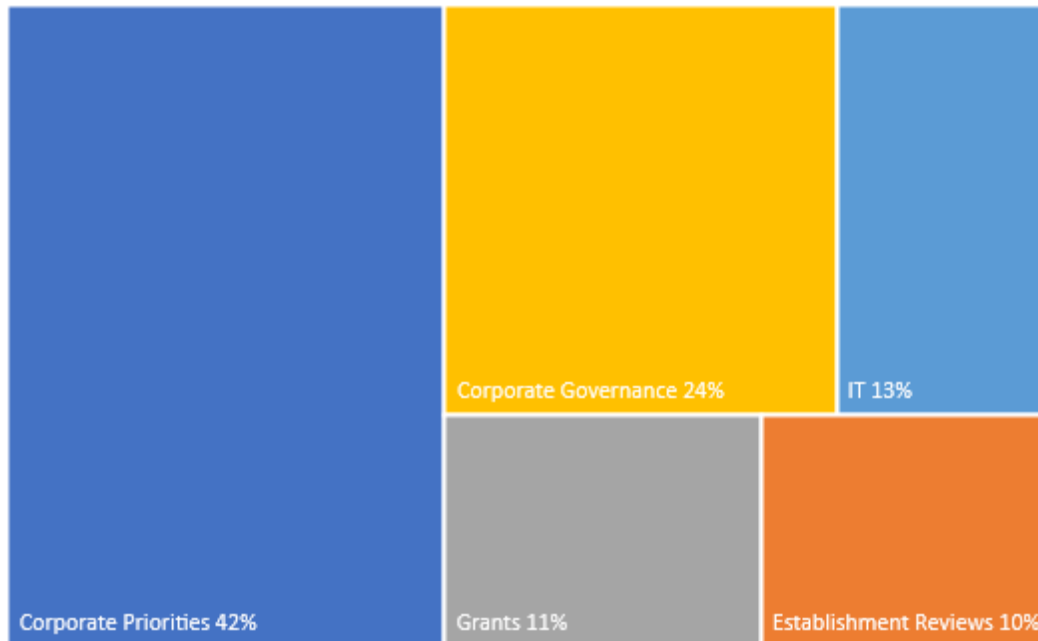
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We acknowledge that Covid-19 presents new risks as well as challenges to the normal operation of existing risk management, governance and control frameworks, at least in the short term and this will be reflected in our work, as appropriate, going forwards. It is not possible at this time to form a view on the impact of these challenges on the overall risk management, governance and control environments operated by the County Council.

#### 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.

Reviews by Theme



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 2019-20 Internal audit plan, approved by the Audit Committee in July 2019, 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 internal audit have undertaken 95 reviews during the year ending 31 March 2020.

Due to the breadth of audit coverage across the organisation there has been an inevitable impact on the delivery of those reviews scheduled for completion within the quarter four portfolio allocations which has either resulted in delays or early cessation of planned audit work.

The revised 2019-20 internal audit plan has been delivered with the following exceptions:

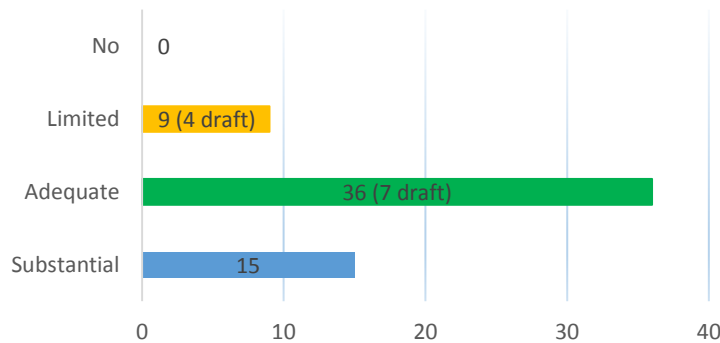
- Work had commenced but halted prior to completion either due to availability of staff or difficulties in auditing the service area virtually in respect of 4 reviews:
  - Performance Management,
  - School thematic review (recruitment),
  - Adults establishment thematic (workforce development) and
  - Direct Payments
  
- Fieldwork remains in progress in respect of 12 reviews. It is fully anticipated that assurance work will be completed in these areas in the near future and will be reported to Senior Management and the Audit Committee as part of our next progress report
  - Local management of Shared Services processes
  - IT Change management
  - Data storage
  - Data centre security
  - Cyber security
  - Recording in AIS
  - Client Affairs
  - Local bus subsidy support
  - Governance arrangements (Shared Services)
  - IR35 (Shared Services)
  - Master Data Team (Shared Services)
  - Payroll – pension admin (Shared Services)



- Work is substantially complete, and an opinion has been formed for 11 reviews however, final reports have not yet been agreed.
  - Risk management (Limited)
  - IT Capacity planning and management (Adequate)
  - Health assessments (Limited)
  - Charging of short-term beds (Limited)
  - Highway development planning (Adequate)
  - Disclosure and Barring Service (Adequate)
  - Building term contract management (Adequate)
  - Approved mental health professionals (Limited)
  - Inclusion and diversity (Adequate)
  - Traded Services (Adequate)
  - Contract management thematic – Corporate Resources (Adequate)

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:

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**Substantial** – There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found;

**Adequate** - While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;

**Limited** - Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk; or

**No** - Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

\*23 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, advice, assurance mapping, grant certification or concluded with a position statement

## 5. International Standard on Assurance Engagements (ISAE 3402)

ISAE 3402 provides an international assurance standard allowing public bodies to issue a report for use by user organisations and their auditors (user auditors) on the controls at a service organisation that are likely to impact or be a part of the user organisation's system of internal control over financial reporting enabling them to inform both their annual governance statement and the annual audit opinion.

ISAE 3402 provides for two types of report:

- Service Organisation Control (SOC) Type 1 Report - attestation of controls at a service organisation at a specific point in time
- Service Organisation Control (SOC) Type 2 Report - attestation of controls at a service organisation over a minimum six-month period.

In 2019/20 Hampshire County Council commissioned a Service Organisation Controls (SOC) Type 2 Report under International Standard on Assurance Engagement (ISAE) 3402. Assurance against the international standard was provided by Ernst & Young.

The scope of the review incorporated coverage of General Ledger, Order to Cash, Purchase to Pay, Cash & Bank, Human Resources & Payroll and Information Technology General Controls

In forming their 'Opinion' the auditors (Ernst & Young) concluded:

*'In our opinion, in all material respects, based on the criteria described in the Integrated Business Centre's Assertion:*

- a) The Description fairly presents the System that was designed and implemented throughout the period 1 April 2019 to 31 December 2019.*
- b) The controls related to the Control Objectives were suitably designed to provide reasonable assurance that the Control Objectives would be achieved if the controls operated effectively throughout the period 1 April 2019 to 31 December 2019 and if user entities applied the complementary controls assumed in the design of Integrated Business Centre's controls throughout the period 1 April 2019 to 31 December 2019.*

*The controls operated effectively to provide reasonable assurance that the Control Objectives were achieved throughout the period 1 April 2019 to 31 December 2019 if complementary user entity controls assumed in the design of Integrated Business Centre's controls operated effectively throughout the period 1 April 2019 to 31 December 2019'*

## 6. Key Observations

There 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 areas identified that provide challenge to the organisations risk environment:

### Management of Guardianship – Mental Health

A review of all service users subject to a Guardianship Order was undertaken to ensure compliance with established policies and procedures.

Testing highlighted that in all cases there was a lack of documentation and/ or records supporting the guardianship application, renewal and discharge processes. Whilst each record retained some documentation, there was no one client reviewed for which all necessary documentation was evident.

There is a risk that in the absence of key documentation the authority may be unable to demonstrate that a guardianship order has been properly administered or has been made in the best interest of the client and is not a deprivation of the client's liberties.

### Use of Agency Staff – Children's Services

The use of agency workers is essential to ensure the efficient and effective delivery of Council services. Hampshire County Council is committed to ensuring those workers engaged through an agency to work for the Council on a temporary basis are treated in compliance with the Agency Workers Regulations for which relevant and up to date policy and guidance exists.

Testing of agency staff acquired by Children's Services through the Council's former framework 'Matrix' along with those commissioned 'off-contract' highlighted weaknesses in the absence of retained documentation to support the audit trail for pre-employment checks. There was also a lack of evidence to substantiate the approval to recruit agency workers (on or off-contract) and further to any contract extensions (beyond an initial 90-days).

Additionally, there was no clarity or guidance available to managers with regard the retention of supervision files on completion of the agency workers contract.

### Short Term Beds

The audit highlighted that approximately one third of residential reablement placements approved since September 2019 had been extended for longer than six weeks.

Review of a sample of reablement cases where stays exceeded the six-week period ranged from 43 to 307 nights. The decision to extend the period of care as reablement waives any potential charge to the client.

Well-being checks are undertaken for prospective hospital-based clients that may require a residential placement on a short-term basis, such as reablement. Whilst we confirmed such checks to have been undertaken a significant proportion of short-term placements to which they relate were extended more than the original planned stay. This may question the effectiveness of the original well-being check in not fully identifying the care needs of the client. There is a risk that extended stays result in short term beds not being used for their intended purpose.

It is understood that a wider project of work is ongoing across the NHS and social care which will contribute toward mitigation of identified risks.

### Approved Mental Health Professionals

Hampshire County Council (HCC) have a statutory responsibility to ensure that there are sufficient AMHPs to undertake the functions delegated to them under the Mental Health Act. In addition, every AMHP must be approved by a Local Social Services Authority (LSSA) to ensure they are competent to practice.

AMHPs are required to maintain a portfolio of essential supporting evidence to demonstrate their continued competence. Our review found inconsistency in the retention and completion of essential documentation.

LSSAs are required to maintain a register of all AMHPs who have been approved and retain records for five years from the day the approval ended. Review of the register highlighted gaps in the recording of required information.

The register is also used to record key dates for re-approval as an AMHP. If information is incomplete, the register cannot be used for accurate and reliable monitoring purposes.

## **Risk Management**

It is acknowledged and important to recognise that the Council have an exceptional record of managing risk as part of their business as usual and decision making processes and further as part of departmental developments, project management and implementation of new and emerging legislation. This is reflected in the Risk Management Strategy and can be evidenced through numerous initiatives and validated through the successful outcomes of a range of external reviews, and certifications. It is therefore important to clarify that observations as part of this review were not reflective of risk management at this level.

However a review of the Council’s strategic risk management approach highlighted weaknesses in the effectiveness of recording and reporting of the corporate risks to senior management and Members enabling them a holistic overview and articulation of the key risks to the Council, and how each are being mitigated / managed enabling regular review and challenge both to existing risks and providing the ability to consider new and emerging risks.

## **AH&C and Children’s Establishments - Amenity Funds, Imprest and PCards**

Thematic reviews were undertaken across a selection of establishments within Adult Health Care and Children’s Services.

Review of amenity funds, imprest accounts and Procurement Cards within establishments visited commonly found transactions to be unsupported by receipts, unauthorised and documentation incomplete. Additionally, VAT was not consistently accounted for.

## 7. 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.

The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection and investigation of fraud and corruption (Anti-Fraud & Corruption Strategy and Response Plan; Whistleblowing Policy and Anti Bribery Policy).

Counter-fraud activity during the year has delivered a programme of proactive and reactive work to complement the internal audit strategy and annual plan focusing resource against assessed fraud risks in addition to new and emerging threats.

**Reactive Fraud Activity** - The Southern Internal Audit Partnership work with Hampshire County Council in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews are undertaken by professionally accredited (CIPFA CCIP) staff, in accordance with the Council's Anti-Fraud & Corruption Policy and Response Plan.

During 2019/20 one fraud investigation was undertaken by SIAP. This was taken forward as an internal disciplinary matter and resulted in the dismissal of the employee. On this occasion, due to the standard of evidence available this matter was not referred to the police as the case could only be proved to an 'on the balance of probabilities' standard.

**National Fraud Initiative (NFI)** - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

2019/20 was a match release year and our work focussed on facilitating match enquiries received and assisting departments with the investigation of matches. This exercise is now complete, and all match reports have been closed on the Cabinet Office NFI website. The exercise has identified approx. £250,000 of savings for which arrangements (where applicable) have to be put in place to recover. The highest areas of yield were residential care payments £136,000, personal budgets £67,000 and pensions £32,000.



**Proactive Approach** - Whilst our reactive fraud work assists the Council in responding to notified incidents or suspicions of fraud and irregularity, it is equally important to ensure proactive initiatives are appropriately explored to understand, prevent and detect fraud risks across the organisation. Initiatives and subsequent outcomes during the year included:

- The annual CIPFA fraud survey was completed on behalf of the Council and submitted in accordance with the June 2019 deadline.
- Advice and guidance were provided across approx. 70 enquiries. The common themes continue to relate to email scams (mandate fraud, malware, and spoof emails), with schools being particularly targeted.
- We have continued to expand upon and develop our range of general fraud awareness training presentations. We are liaising with Learning and Development to determine which of these will be of benefit to the Council as E-learning packages.

The presentations developed have now also been tailored in such a way as to be deliverable via MS Teams which we will look to roll out as a training offer internally & externally.

- Two themed proactive reviews were undertaken during the year, both of which were in relation to the NFI companies house matches.

These reviews remain in progress as testing has been delayed due to the impact on departmental priorities resulting from the COVID-19 pandemic. These are now scheduled for completion by the end of July.

## 8. 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 Quality 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, annual self-assessments have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

## 9. 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.

## 10. 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 2019-20 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;
- 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.

## 11. Internal Audit Performance

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

Performance Indicator	Target	2018-19 Actual	2019-20 Actual
Percentage of internal audit plan delivered	95%	92%	87%
<b>Positive customer survey response</b>			
• Hampshire County Council	90%	n/a	98%
• SIAP – all Partners	90%	99%	98%
<b>Public Sector Internal Audit Standards</b>			
	Compliant	Compliant	Compliant

Customer satisfaction has been assessed through response to questionnaire issued to a wide range of stakeholders including senior officers and key contacts involved in the audit process throughout the year.

## 12. 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  
 July 2020

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker</b>	Audit Committee
<b>Date:</b>	23 July 2020
<b>Title:</b>	Internal Audit Plan 2020-21 & Fraud Plan 2020-21
<b>Report From:</b>	Deputy Chief Executive and Director of Corporate Resources

**Contact name:** Neil Pitman

**Tel:** 01962 845139

**Email:** Neil.pitman@hants.gov.uk

### Purpose of this Report

1. The purpose of this report is to provide the Audit Committee with an overview of the Internal Audit Plan 2020 – 2021 (Appendix 1) and Fraud Plan 2020 – 2021 (Appendix 2).

### Recommendation(s)

2. That the Audit Committee are invited to comment on and approve the Internal Audit Plan 2020-21 and the Fraud Plan 2020 - 2021 as attached.

### Contextual Information

3. 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.
4. 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

5. 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.
6. Internal audit focus should be proportionate and appropriately aligned, as such, only high and medium priority reviews are incorporated within the Internal Audit Plan.
7. With the unprecedented scale of COVID-19 coupled with the speed of its impact and the wide ranging challenges it has presented, the County Council have had to react promptly and positively to the complex issues raised to ensure that the essential services they provide and the best interest of the people they serve are protected and maintained. The exceptional demands this crisis has placed on the County Council has necessitated new and different ways of working to navigate the unique challenges posed.
8. Such challenges and subsequent resolutions bring with them new and emerging risks that management need to consider, manage, and mitigate. In response, the Southern Internal Audit Partnership has considered and incorporated emerging risk areas within the 2020-21 plan that more prominently present themselves or are born by the necessary or imposed actions to meet and address the crisis we currently face.
9. 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.
10. The audit plan will remain fluid to ensure internal audits ability to react to the changing needs of the County Council.
11. 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.

## **Performance**

12. 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.
13. Significant matters that jeopardise the delivery of the plan, or require changes to the plan are identified, addressed and reported to the Audit Committee.



14. 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.
15. 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.
16. The Audit Plan 2020 – 21 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.
17. The endorsement and sponsorship of the plan(s) 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.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	no
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b> <i>'Board' consideration and approval of the Internal Audit Plan, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards</i>	

**Other Significant Links**

<b>Links to previous Member decisions:</b>	
<u>Title</u>	<u>Date</u>
Internal Audit Charter 2020-21	23 July 2020
<b>Direct links to specific legislation or Government Directives</b>	
<u>Title</u>	<u>Date</u>

<b>Section 100 D - Local Government Act 1972 - background documents</b>	
<p>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.)</p>	
<u>Document</u>	<u>Location</u>
None	

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) 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 protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are 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 in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

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

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Internal Audit Plan

2020-21

Hampshire County Council



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# Southern Internal Audit Partnership

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 organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.*

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

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

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 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 Directors and Audit Sponsors, to ensure it continues to reflect the needs of the 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 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, Deputy Head of Partnership, Natalie Jerams, Assistant Head of Partnership and Iona Bond, Melanie Weston, Liz Foster and James Short, 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.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

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 these 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.'*

## Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team which are required to be disclosed under internal auditing standards.

## Developing the internal audit plan 2020/21

We have used various sources of information and discussed priorities for internal audit with the following groups:

- Corporate Management Team
- Directorate Management Teams
- Other Key Stakeholders
- Audit Committee

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

With the unprecedented scale of COVID-19 coupled with the speed of its impact and the wide ranging challenges it has presented, the County Council have had to react promptly and positively to the complex issues raised to ensure that the essential services they provide and the best interest of the people they serve are protected and maintained. The exceptional demands this crisis has placed on the County Council has necessitated new and different ways of working to navigate the unique challenges posed.

Such challenges and subsequent resolutions bring with them new and emerging risks that management need to consider, manage, and mitigate. In response, the Southern Internal Audit Partnership has considered and produced a list of consequential and emerging risk areas that more prominently present themselves or are born by the necessary or imposed actions to meet and address the crisis we currently face.

The internal audit plan 2020/21 has allowed for a pool of days to provide assurance around such emerging risks. Potential areas of review are appended in Annex 1. This list is by no means exhaustive but does reflect many of the issues and circumstances recognised as being faced by SIAP Partners and intelligence gained from SIAPs wider national networks.

The 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.



## Internal Audit Plan 2020-21

Audit	Directorate Sponsor	Scope/ Risk	Audit Needs Assessment	Quarter
<b>Corporate Cross Cutting</b>				
Health and Safety	DoTG	New structures and operating models are embedded to ensure compliance with Health and Safety Regulations.	H	Q4
Transformation	DoTG	Arrangements for key T21 programmes and projects are monitored and issues are identified and addressed.	H	Q2
Debt recovery / write off	DCE & DoCR	Debt identified and procedures are in place to pursue outstanding debt.	M	Q2
Budget monitoring	DCE & DoCR	New procedures have been rolled out and are working to support effective budget monitoring by budget holders.	H	Q3/4
COVID-19	Corporate	Assurance over new and emerging risks in response to the COVID-19 pandemic (see Annex 1)	H	Q2 to Q4
<b>Governance</b>				
Risk Management	DoTG	To review the effectiveness of corporate and directorate risk registers.	H	Q4
Ethical governance	DoTG	To ensure that policy and procedures support maintenance of high ethical standards and behaviours.	M	Q1
Insurance Fund	DoTG	Review of new strategy and processes for both insured and self-insured losses.	M	Q3
Scheme of delegation	DoTG	The scheme of delegation to support the decision-making process is documented, understood and adhered to.	H	Q2

Audit	Directorate Sponsor	Scope/ Risk	Audit Needs Assessment	Quarter
Fraud (Proactive / Reactive)	DCE & DoCR	Range of proactive and reactive initiatives to help identify and mitigate the risk of fraud (see Fraud Plan).	H	Q1 to Q4
Annual Governance Statement	DoTG	Review & contribute to the Annual Governance Statement.	H	Q1
Annual self-assessment PSIAS	DCE & DoCR	In accordance with the requirements of the Public Sector Internal Audit Standards.	H	Q1-2
Armed forces covenant	ACE	To review process in place to support the armed forces covenant.	M	Q4
Legal Services – ASD financial assessment of benefits appeals	DoTG / DoAHC	Appeals are dealt with efficiently and effectively and in accordance with legislation and policy guidance.	M	Q1
Brexit	ACE	Contingency as needed to review any issues arising.	H	Q4
Database Management & Monitoring	DCE & DoCR	All databases are known and appropriately managed. Assurance over confidentiality, integrity and availability of data held.	H	Q1
Server Build Process	DCE & DoCR	Review of build and commissioning processes and compliance with security standards (build templates). Changes to configurations follow change control processes	M	Q3
User Access Controls	DCE & DoCR	Manual and automated procedures to manage user ids to minimise the risk of inappropriate access (to include O365 identities).	H	Q3
Vulnerability Scanning Process	DCE & DoCR	Servers follow appropriate scanning regimes and are promptly acted on (to include automated and manual tasks).	H	Q3

Audit	Directorate Sponsor	Scope/ Risk	Audit Needs Assessment	Quarter
Virtualisation	DCE & DoCR	Control in place to protect the confidentiality, integrity, and availability of the environment for the system and users.	M	Q1
IT Operating Systems	DCE & DoCR	Focus on Windows albeit other operating systems will be risk assessed as part of the review.	H	Q4
Cloud	DCE & DoCR	Review of Cloud questionnaire process and engagement of IT. To consider due diligence of providers (often outside of IT's control) and implications of their actions.	M	Q2
HPSN2	DCE & DoCR	Contract management arrangements	H	Q3
Application Management	DCE & DoCR	Application life cycle and ongoing engagement of IT during implementation and after go-live. Potential focus on SWIFT.	H	Q3
Disaster Recovery	DCE & DoCR	Review and maintenance of DR during a period of significant change in IT delivery.	H	Q4
Payment Card Industry Data Security Standard	DCE & DoCR	Continued compliance with the PCI DSS requirements / standards.	H	Q2
<b>Corporate Objective - Hampshire safer and more secure for all</b>				
Safeguarding - Children	DoCS	To review the ongoing internal and external assurances that the department receive for the safeguarding of children.	H	Q4
School thematic(s)	DoCS	Review a sample of schools and disseminate key risks / actions to all establishments	M	Q3/4
Reactive - Schools/establishments	DoCS	Full reviews of individual schools based on discussions with relevant stakeholders	H	Q3/4
SFVS	DoCS	Review of SFVS responses received and sample check of answers / supporting prior to DfE deadline	H	Q4



Audit	Directorate Sponsor	Scope/ Risk	Audit Needs Assessment	Quarter
Children's Services establishments thematic(s)	DoCS	Review a sample of establishments and disseminate key risks / actions to all establishments	H	Q4
Music Service	DoCS	Business Unit review of the service to include demand management, pricing, billing, debt management, vfm.	M	Q3
Education Psychology Service	DoCS	Business Unit review of the service to include demand management, pricing, billing, debt management, vfm.	M	Q2
Use of Agency Staff in Children's Social Care	DoCS	To review usage and rationale.	H	Q4
Education provision – Secure/ Hospital units	DoCS	To review the educational provision within secure and hospital units.	H	Q2
Complaints	DoCS	Complaints, including those involving other agencies are dealt with efficiently in line with agreed policy.	M	Q1
<b>Corporate Objective - Maximising wellbeing</b>				
Regional Adoption Agency	DoCS	To review the governance and performance management arrangements in place.	M	Q1
Individual Placement Agreements – non county foster carers	DoCS	Review of process in place for agreements and updates as circumstances change.	H	Q2
Direct payments for disabled children	DoCS	Effectiveness of governance, controls and compliance in the administration of Direct Payments.	H	Q3
AHC thematic review(s):	DoAHC	To review a sample of establishments and disseminate key risk and actions to all relevant parties	M	
• Rolling quality assurance				Q3
• Use of agency staff				Q3

Audit	Directorate Sponsor	Scope/ Risk	Audit Needs Assessment	Quarter
LGA health check	DoAHC	To review findings / action plan and assess progress/ implementation.	H	Q4
Data quality – care packages and cost coding	DoAHC	Review of arrangements to ensure care packages and codes are input correctly prior to new system implementation.	H	Q1
Social supervision	DoAHC	Process in place to ensure accurate and timely reports are made to the Ministry of Justice.	H	Q3
Contracted suppliers	DoAHC	All suppliers have current contracts in place.	H	Q1
Medicine control within community teams	DoAHC	To review arrangements in place to ensure effective medicine management e.g. following discharge or re-entry to hospital.	H	Q3
Scheme of delegation and authorising spend	DoAHC	To ensure that changes made have resulted in consistency in delegated authorisation of spend.	H	Q1
Business rules	DoAHC	Changes from November 2019 have been effective in creating a leaner process and impacted on waiting lists.	M	Q3
Debt recovery	DoAHC	To review effectiveness of current policy and processes in managing debt.	H	Q1
Funded Nursing Care follow-up	DoAHC	To follow up issues arising from the 2018/19 audit review.	M	Q3
Business change	DoAHC	To review the arrangements in place to effectively manage change, including communication and training strategy.	M	Q4
<b>Corporate Objective - Enhancing our quality of place</b>				
Flood management	DoETE	Review of the council's flood management strategy and policies	H	Q4

Audit	Directorate Sponsor	Scope/ Risk	Audit Needs Assessment	Quarter
M3 Enterprise LEP (Accountable Body Arrangements)	DoETE	Accountable Body Arrangements of the M3 Enterprise LEP.	M	Q3
Economic Development (Key Sites Portfolio)	DoETE	Review of the project to refresh the key sites portfolio records.	M	Q2
Economic and business intelligence service	DoETE	Review of the traded services.	M	Q2
Highway Maintenance	DoETE	New highways maintenance operating model.	H	Q4
Highways incident management	DoETE	All reported incidents are risk assessed, prioritised and monitored to ensure timely resolution.	H	Q1
Engineering consultancy	DoETE	To review adequacy of controls and compliance.	H	Q2
Parking Service (on-street parking income)	DoETE	To review processes in place following transfer of responsibility back to HCC for managing on-street parking.	M	Q3
Hampshire waste recycling centres – permit scheme	DoETE	Systems introduced for permits and charges are robust and working in practice.	H	Q3
Minerals and waste	DoETE	To review arrangements for ensuring compliance with planning conditions.	H	Q2
Public Transport Operators – COVID Financial Support	DoETE	Development of a system for accounting of financial support provided to public transport operators following COVID.	H	Q2
Coroners Service	DoCCBS	Review of Coroners Service commissioning, costs, and processes.	M	Q4
Hampshire Transport Management	DoCCBS	Governance, control, and delivery of HTM as a business unit.	M	Q3

Audit	Directorate Sponsor	Scope/ Risk	Audit Needs Assessment	Quarter
Building Health and Safety compliance	DoCCBS	To review building risk control responsibilities and procedures.	H	Q4
Risk management	DoCCBS	Review framework for managing risk across the department.	H	Q2
Business risk management (property)	DoCCBS	Review framework for managing risk whether related to the business or management of risk on behalf of partners.	H	Q3
Scientific Service	DoCCBS	Focus on budgetary control and forecasting. To including workflow and maximisation of income generation.	M	Q2
Marketing	DoCCBS	Operation of Business Development and Marketing Team.	M	Q3
Outdoor Centres - business development	DoCCBS	Arrangements for developing business models and plans to secure financial resilience.	H	Q4
Records management centre	DoCCBS	To review business processes in place to manage records in accordance with current regulations.	H	Q2
<b>Procurement and Contract Management</b>				
Contract Management thematic(s):		Effectiveness of contract management arrangements for a sample of contracts not covered by individual reviews.	H	
• Adults' Health and Care	DoAHC			Q1
• CCBS	DoCCBS			Q3
Highways service contract	DoETE	Effectiveness of contract management arrangements.	H	Q4
Procurement thematic(s)	DoAHC /	To review procurement processes and compliance with	H	
• Adults' Health and Care	DCE & DoCR	regulations and agreed policies.		Q1
• Corporate Services	/ DoTG /			Q3
• CCBS	DoCCBS			Q2

Audit	Directorate Sponsor	Scope/ Risk	Audit Needs Assessment	Quarter
Integrated consultancy framework procurement	DoCCBS	Procurement processes and compliance with EU Regulations and agreed policies.	H	Q2
Asset Management System – project management for re procurement	DoCCBS	Governance and project management arrangements in place to manage the re-procurement.	H	Q2
<b>Grants / Other</b>				
Reading & Hampshire Property Partnership	-	Certify a sample of transactions and reconciliations for HCC and RBC.	H	Q1
Academies SLA		Review of accounts	H	Q1
LTP – integrated transport plan	-	As per grant certification	H	Q2
LTP – block maintenance	-	As per grant certification	H	Q2
LTP – incentive element	-	As per grant certification	H	Q2
Local Bus Subsidy support grant	-	As per grant certification	H	Q2
Bus Rapid Transit	-	As per grant certification	H	TBC
National Productivity Investment Fund (SE rapid transit)	-	As per grant certification	H	Q2
Air quality management grant	-	As per grant certification	H	Q4
Project integra	-	As per grant certification	H	Q1
Growth hub funding to local enterprise partnerships (LEPS)	-	As per grant certification	H	Q1
EU Exit business readiness engagement project	-	As per grant certification	H	Q1

Audit	Directorate Sponsor	Scope/ Risk	Audit Needs Assessment	Quarter
Additional growth hub funding to local enterprise partnerships (LEPS)	-	As per grant certification	H	Q1
COVID-19 Bus Services Support Grant	-	As per grant certification	H	Q1
Disabled Facilities Grant	-	As per grant certification	H	Q3
Test & Trace Funding Allocation	-	As per grant certification	H	Q4
Management & Review				
<b>Total Days</b>				<b>1500</b>

## Shared Services Internal Audit Plan 2020-21

Services provided under the shared service arrangements with Hampshire Constabulary, the Office of the Hampshire Police and Crime Commissioner and Hampshire Fire and Rescue Service are 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 reported below for information. The Integrated Business Centre attains assurance under International Standards on Assurance Engagements (ISAE) 3402 through Service Organisation Control (SOC) Type 1 and Type 2 reports. SIAP will not duplicate assurances attained through provision of ISAE 3402.

Audit	Scope /Risk	Audit Needs Assessment	Proposed Timing
<b>Governance &amp; IT</b>			
Governance arrangements	Effectiveness of governance arrangements. Focus on roles, responsibilities and effectiveness of the Shared Services Board.	M	Q2
<b>HR</b>			
Casual Staff	New processes in place (February 2020) to ensure pre-employment checks are completed and workflows are set up correctly to facilitate the claims payment process.	H	Q3
Recruitment (Success Factors)	A full review is being carried out during 2019/20. This review will be scoped according to the outcomes of that review with the aim of focussing on higher risk areas.	H	Q4
Pre-employment checks	A review of DBS checking arrangements is being carried out during 2019/20 to ensure that the need for the checks is correctly identified, carried out and recorded. The 2020/21 review will aim to focus on other pre-employment checks such as right to work, professional registrations. To also focus on the new DBS app (implementation May 2020).	H	Q3



Audit	Scope /Risk	Audit Needs Assessment	Proposed Timing
Good work plan	To review revised processes in place to ensure that new legal requirements (all contracts of employment to be issued by start date) are met (excluding schools).	H	Q3
Occupational Health – information management	New processes in place ensuring appropriate consent is received prior to sensitive information being shared.	M	Q2
<b>Procurement &amp; Contract Management</b>			
Procurement (General)	To review procurement processes and compliance with EU Regulations and agreed policies. (£100k +).	H	Q3
<b>Other</b>			
Education Financial Services	To review governance, roles and responsibilities of the EFS in accordance with the Shared Services accession agreement	M	Q2
Education Personnel Services	To review governance, roles and responsibilities of the EFS in accordance with the Shared Services accession agreement	M	Q2
Contingency	As required following the change of approach in 2019/20 (ISAE 3402).		
Management	Planning, liaison, reporting, action tracking, external audit liaison, advice		
<b>Total Days</b>			<b>205</b>

## Hampshire Pension Fund Internal Audit Plan 2020/21

Audit	Scope/ Risk	Audit Needs Assessment	Proposed Timing
Pensions payroll and benefit calculations	Annual review to provide assurance that systems and controls ensure that:- <ul style="list-style-type: none"> <li>• Lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients</li> <li>• All changes to on-going pensions are accurate and timely</li> <li>• Pension payroll runs are accurate, complete, timely and secure with all appropriate deductions made and paid over to the relevant bodies.</li> </ul>	H	Q4
Pension refunds	To assess that there are appropriate arrangements to ensure all refunds are valid, accurate and are paid promptly to the correct recipients following a validated request to withdraw from the schemes administered by HPS.	H	Q2
Fund management, investments and accounting for assets	Assurance over the development & approval of the Pension Fund Investment Strategy, compliance with the Strategy and that all assets are accounted for, held securely and all dividends/interest etc due is received.	H	Q2
UPM application review	Review of the UPM application including cyber security & access controls.	M	Q3
Management & Review	-		
<b>Total Days</b>			<b>100</b>

## COVID-19 Risk Considerations

## Annex 1

Risk Area	Potential Scope
Governance – decision making, delegated powers, risk management)	Assurances over interim arrangement put in place to ensure appropriate governance and decision-making arrangements in the event of deferred, suspended, or cancelled Council meetings
Health & Safety (homeworking / PPE/ workspace social distancing)	Assurance over responsibilities to staff whilst home working, effective allocation of PPE, social distancing in the workplace, preparedness for staff returning to the workplace, HSE assessments.
Staff Welfare / Wellbeing / Performance Management	Arrangements over duty of care for staff welfare during extended period of isolation including consideration of wellbeing and mental health. Also, to consider the effectiveness of performance management during extended periods of homeworking.
Furlough Scheme Administration	Assurance over arrangements for administering the scheme, including effective communication to managers and staff, identification of qualifying employees, submission of accurate grant claims to central government and sending notifications to the staff affected.
IT / Cyber Security (including homeworking)	Review of cyber security arrangements (including Phishing, Smishing etc.), security controls (including remote access). Focus on vulnerabilities of home working and interim arrangements enforced through response to COVID 19
Procurement	Robustness of procurement and decision-making process, emergency procurements / purchases, compliance with Contract Standing Orders, use of PCards. Due diligence of new suppliers.
Contract Management (Supply Chain)	Considerations of protecting supply chain from fraud – mandate fraud / conflicts of interest / duplicate invoices / inflated claims / product substitution
Market Underwriting	Process, due diligence, and impact of payments to providers despite reduced or ceased services.
Central Government Grants (allocation)	Assurance over the processes and due diligence to support the allocation of care homes support package introduced to tackle the spread of COVID-19 in care homes.
Emergency Planning / Business Continuity (risk of 2 <sup>nd</sup> Peak)	Establish lesson learnt from response to the first lockdown to ensure preparedness for future events.
Service resilience – single points of contact	Linked to above - ensure full awareness of service resilience to avoid single points of failure. Assurance over the completeness and effectiveness of internal policies and procures to enable continuity of service. Particular consideration required in areas where staff have been re-designated.

Risk Area	Scope
Financial Resilience	Impact of COVID, reassessment of financial risks and impact of assumptions in the MTFS (income, reserves, investments). Implications on future saving programmes / work streams.
Debt Recovery – rents, general debtors	Impact on debt recovery and reduced income driven by financial hardship
Recovery	Assurance over the governance and recovery actions in place to return to business as usual. To consider the potential of increased and sustained demand on services i.e. social care etc.
Enforced alternative operating models / processes for service delivery	To review process that have been adapted to address the priorities driven by COVID to ensure they remain sufficiently robust (governance and control) and full risk considerations have been undertaken. To include consideration of fraud risk – emerging internal / external opportunities (driven by financial hardship)

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Fraud Plan

2020-21

Hampshire County Council



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**Southern Internal  
Audit Partnership**

Assurance through excellence  
and innovation

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1. Forward

Leaders of public service organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

Published in October 2014, the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response.

It is these principles that underpin the Southern Internal Audit Partnership’s approach to support the management of the risk of fraud and corruption within the County Council.

Hampshire County Council promotes a zero-tolerance culture to fraud and corruption:

*‘The 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....The Council will seek to create a zero tolerance culture to fraud and corruption...’ (HCC - Anti Fraud & Anti-Corruption Policy Statement)*

The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection and investigation of fraud and corruption (Anti-Fraud & Corruption Strategy; Whistleblowing Policy and Anti Bribery Policy). This document provides an extension to the Council’s existing policies affording a framework of reactive and proactive initiatives to detect fraud and/ or demonstrate assurance that fraud has not taken place.

The Fraud Plan compliments the internal audit strategy and annual plan focusing resource against assessed fraud risks in addition to new and emerging threats.



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## 2. The Changing Face of Fraud

The changing context in which local government services are delivered, the increasing risk of fraud by motivated offenders, reduced local authority resources and associated changes to existing local control frameworks continue to increase the risk exposure to fraud.

In recognition of this, the 2020 Fighting Fraud and Corruption Locally Strategy, has built upon the three pillars of activity (acknowledge, prevent and pursue), with ‘govern’ and ‘protect’ added as tenets to underpin appropriate focus of fraud prevention resource in local authorities.



fig 1 (Fighting Fraud & Corruption Locally – The local government counter fraud & corruption strategy)

These principles are further underpinned by demonstrable regard to:



### 3. Reactive Fraud Activity

The Southern Internal Audit Partnership will work with Hampshire County Council in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews will be undertaken by professionally accredited (CIPFA CCIP) staff, in accordance with the Council’s Anti-Fraud & Corruption Strategy.

By its nature such reactive fraud and irregularity work is unpredictable with regard its level and duration. Recent history has demonstrated, in relative terms, limited levels of required activity in respect of reactive fraud work in Hampshire County Council, however, a contingent level of capacity for such eventualities is considered prudent.

### 4. Proactive Approach

Whilst the established process to reactive fraud assists the Council in appropriately responding to notified incidents or suspicions of fraud and irregularity, it is equally important to ensure proactive initiatives are appropriately explored to understand, prevent and detect fraud risks across the organisation. Such proactive measures have been designed alongside the themes outlined within the ‘Six Cs’ (culture, capability, capacity, competence, communication and collaboration) and which are mapped within Annexe A.

With the unprecedented scale of COVID-19 coupled with the speed of its impact and the wide ranging challenges it has presented, the County Council have had to react promptly and positively to the complex issues raised to ensure that the essential services they provide and the best interest of the people they serve are protected and maintained. The exceptional demands this crisis has placed on the County Council has necessitated new and different ways of working to navigate the unique challenges posed.

Such challenges and subsequent resolutions bring with them new and emerging fraud risks that management need to consider, manage, and mitigate. In response, the Southern Internal Audit Partnership has considered and produced a list of consequential and emerging fraud risk areas that may present themselves or are known to have been exploited by criminals who unscrupulously take advantage of the crisis we currently face.

The internal audit plan 2020/21 has allowed for a pool of days to provide assurance around such emerging risks and the Counter Fraud Unit will work closely with audit colleagues to add their expertise to fraudulent risk exposures in service delivery and imposed government initiatives/ requirements. Potential areas of review include but are not limited to:

Risk Area	Potential Fraud Scope
IT / Cyber Security (including homeworking)	Cyber fraud (Phishing, Smishing, identity fraud etc.)
Procurement	Emergency procurements / use of PCards.
Contract Management (Supply Chain)	Mandate fraud / duplicate invoices / inflated claims / product substitution
Market Underwriting	Process, due diligence, and impact of payments to providers despite reduced or ceased services.
Central Government Grants (allocation)	Processing and payment of allocated grant funding
Alternative Delivery / Operating Models	Internal advantage taken of lean process / operating models to prioritise front line service delivery

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It is also recognised that 2020 is a National Fraud Initiative upload year and as such the Southern Internal Audit Partnership will be facilitating this process to ensure that the December 2020 deadline (extended from October due to COVID-19) is met. It remains a requirement that all data must still be captured as at the end of September. Resulting matches from the exercise will be available from January 2021.

The Southern Internal Audit Partnerships understanding of Hampshire County Council’s service activities coupled with research from national surveys / publications, benchmarking with other local authority fraud risks and our previous proactive fraud reviews undertaken have been used to inform our proactive fraud activities for 2020-21.

## 5. Fraud Action Plan 2020-21

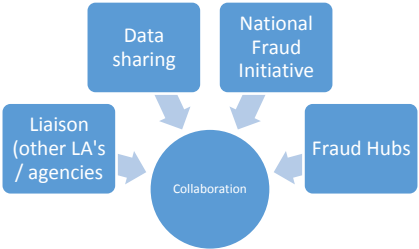
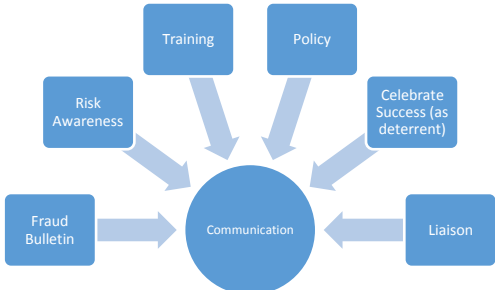
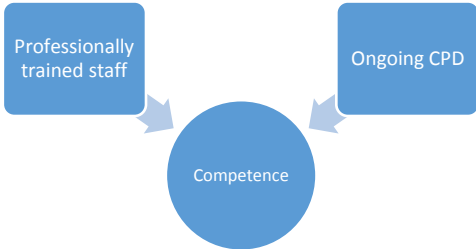
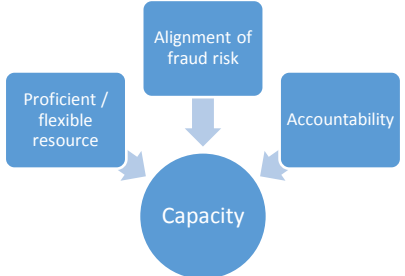
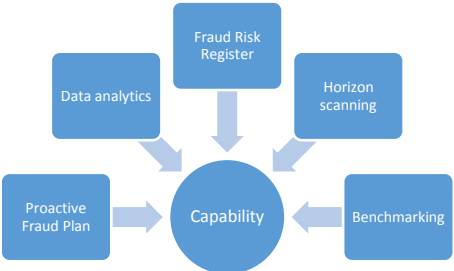
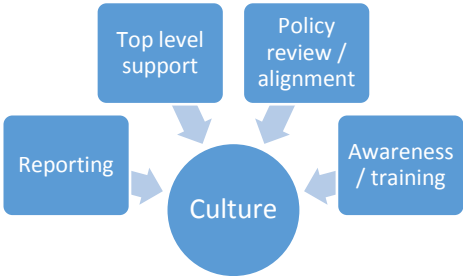
Many of the aspects contributing to an effective proactive approach to fraud risk management are implicit within the Southern Internal Audit Partnership’s established processes to which Hampshire County Council are a part. This is demonstrated through our dedicated and qualified Counter fraud Unit, the tools to which they have access and participation in national and local collaboration groups. Building on intelligence from such collaboration and discussion with Senior Management the following action plan of proactive fraud activity is proposed for 2020-21.

Activity	Scope	Responsible Officer	Due Date	Expected Outcome
<b>CIPFA Fraud Survey</b>	Completion of the annual CIPFA fraud survey	Iona Bond Counter Fraud Manager, Andy Payne, Senior Counter Fraud Officer	Q2	Access to the results of the national survey which provides useful benchmarking information and information into fraud trends which is used to inform the proactive fraud plan.
<b>National Fraud Initiative</b>	To facilitate the timely delivery of the upload NFI 2020 data and review of matches.	Iona Bond Counter Fraud Manager, Andy Payne, Senior Counter Fraud Officer	Q2- Q4	Compliant upload of data and receipt of matches (Jan / Feb 2021).
<b>Procurement</b>	Review in response to central governments <i>‘Review of the risks of fraud &amp; corruption in local government procurement’</i> (June 2020)	Vanessa Anthony, Senior Counter Fraud Officer	Q2	Assurances of a well-led and risk-aware council, that manages its resources and fraud risks in this area efficiently to secure value for money outcomes.
<b>Direct Payments</b>	Control mapping of the key stages within the direct payment process to identify those areas particularly exposed to fraud risk.	Iona Bond Counter Fraud Manager Vanessa Anthony, Senior Counter Fraud Officer	Q3 – Q4	Identification of weaknesses within the control processes where due consideration to fraud exposure may not have been considered to enable effective mitigation.

Activity	Scope	Responsible Officer	Due Date	Expected Outcome
<b>Mandate Fraud (creditors payments)</b>	Control mapping of the key stages within the payment process regarding any changes to supplier bank accounts to identify those areas particularly exposed to fraud risk.	Iona Bond Counter Fraud Manager, Nick Barrett, Senior Counter Fraud Officer	Q2 – Q3	Identification of weaknesses within the control processes where due consideration to fraud exposure may not have been considered to enable effective mitigation.
<b>Payroll Expenses</b>	Control mapping of the key stages within the expenses claiming process to identify those areas particularly exposed to fraud risk.	Iona Bond Counter Fraud Manager, Chloe Reeve, Counter fraud Officer	Q3 – Q4	Identification of weaknesses within the control processes where due consideration to fraud exposure may not have been considered to enable effective mitigation.
<b>Training &amp; Awareness</b>	Develop an effective fraud awareness training programme for Members and Officers.	Nick Barrett, Senior Counter Fraud Officer	Ongoing	Delivery of an agreed stream of training in accordance with organisational priorities.
<b>COVID-19 Support</b>	To support audit colleagues in the delivery of assurances (relating to fraud risks) incorporated within the HCC Audit Plan 2020/21	Iona Bond Counter Fraud Manager	On-going	Reasonable assurance over the authority's fraud risk exposure from COVID-19
<b>Annual Report on Fraud &amp; Irregularity</b>	To produce an end of year report to those charged with governance covering all reactive and proactive fraud initiatives.	Neil Pitman Head of Southern Internal Audit Partnership	Q4	To present a report to CMT and Audit Committee outlining progress against the 'Fraud Action Plan 2020-21' relaying outcomes, assurance, investigations, sanctions, savings as appropriate.

Six C's – Matrix

Annex A



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## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker</b>	Audit Committee
<b>Date:</b>	23 July 2020
<b>Title:</b>	Internal Audit Charter 2020-21
<b>Report From:</b>	Deputy Chief Executive and Director of Corporate Resources

**Contact name:** Neil Pitman

**Tel:** 01962 845139

**Email:** Neil.pitman@hants.gov.uk

### Purpose of this Report

1. The purpose of this report is to present the Internal Audit Charter 2020-21 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.

### Recommendation(s)

2. That the Audit Committee approves the Internal Audit Charter 2020-21 as attached.

### Contextual Information

3. 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’
4. The Public Sector Internal Audit Standards (attribute standard 1000) require that all internal audit activities maintain an ‘internal audit charter’
5. 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.

6. 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
  - Arrangements in place for avoiding conflicts of interest.
  
7. In accordance with the Standards the internal audit charter should be reviewed annually (minimum) and approved by senior management and the board.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	no
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b> 'Board' approval of the Internal Audit Charter, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards	

**Other Significant Links**

<b>Links to previous Member decisions:</b>	
<u>Title</u>	<u>Date</u>
Internal Audit Charter	23 July 2019
<b>Direct links to specific legislation or Government Directives</b>	
<u>Title</u>	<u>Date</u>

<b>Section 100 D - Local Government Act 1972 - background documents</b>	
<p>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.)</p>	
<u>Document</u>	<u>Location</u>
None	

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) 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 protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are 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 in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

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

## Internal Audit Charter

### Introduction

The Public Sector Internal Audit Standards, which took effect from the 1 April 2013, 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
- Demonstrate competence and due professional care
- 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
- 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 2017 [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 organisation's 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 organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'*.

## Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Hampshire County Council lies with the Deputy Chief Executive & 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 Deputy Chief Executive & 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 Deputy Chief Executive & 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 Deputy Chief Executive & 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
- ensures the planning process recognise and address potential conflicts of interest.

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 disclosure 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. Investigations carried out by internal audit will be managed by the Chief Internal Auditor who 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.

Internal audit will provide assurance over the County Council's Anti-Fraud Strategy and framework as part of the internal audit plan.

Internal audit also facilitates 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 potentially 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 Chief Internal Auditor to determine 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 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

<b>Strategic Partners:</b>	Hampshire County Council
<b>Key Stakeholder Partners:</b>	West Sussex County Council Havant Borough Council East Hampshire District Council Winchester City Council New Forest District Council Mole Valley District Council Epsom & Ewell Borough Council Reigate & Banstead Borough Council Tandridge District Council Hampshire Fire & Rescue Authority Hampshire OPCC Hampshire Constabulary Sussex OPCC Sussex Police Force Surrey OPCC Surrey Police Force
<b>External clients:</b>	Waverley Borough Council Hampshire Pension Fund West Sussex Pension Fund New Forest National Park Authority Ringwood Town Council Lymington & Pennington Town Council Chichester Harbour Authority
	<b>Further Education Institutions</b> Eastleigh; Isle of Wight; Highbury; and Portsmouth

## 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

<b>Committee:</b>	Audit Committee
<b>Date:</b>	23 July 2020
<b>Title:</b>	Annual Governance Statement
<b>Report From:</b>	Director of Transformation and Governance and Director of Corporate Resources

**Contact name:** Barbara Beardwell,

**Tel:** 01962 855157

**Email:** Barbara.beardwell@hants.gov.uk

#### **Purpose of this Report**

1. The purpose of this Report is to seek the Audit Committee's approval of the Annual Governance Statement for 2019-20

#### **Recommendation(s)**

2. That the Audit Committee approve the 2019-20 Annual Governance Statement.

#### **Executive Summary**

3. Annex 1 to this Report contains the draft Annual Governance Statement for the year ending 31 March 2020. Pursuant to the Accounts and Audit Regulations 2015, the Annual Governance Statement 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.

#### **Contextual Information**

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

- 4.1. Once approved by this Committee the Annual Governance Statement must be signed on behalf of the County Council by the Leader of the Council and the Chief Executive.
- 4.2. The Annual Governance Statement is an important and integral part of the County Council's Corporate Governance regime.
- 4.3. 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.
- 4.4. Guidance supplied by the Chartered Institute of Public Finance Accountancy (CIPFA) has been considered in the preparation of the draft Annual Governance Statement.

### **Committee on Standards in Public Life**

5. A report to the Conduct Advisory Panel on 24 October 2019 informed Members about the recommendations and best practice proposed by the Committee on Standards in Public Life (CSPL) because of its review into Local Government Ethical Standards
6. One of the best practice recommendations was that Councils should report on separate bodies they have set up or which they own as part of their annual governance statement and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness, and publish their board agendas and minutes and annual reports in an accessible place.
7. The County Council has two current joint ventures with other local authorities, the Hampshire and Kent Commercial Services LLP with Kent County Council for the temporary and contract recruitment of staff; and the Reading Hampshire Property Partnership Limited a property joint venture with Reading Borough Council. Details of the governance of these arrangements are set out in the Annual Governance Statement. While their Board agendas and minutes are not public due to the commercial nature of their activities all appropriate statutory reporting is undertaken.
8. As the approval of the Annual Governance Statement falls within the remit of the County Council's Audit Committee the Conduct Advisory Panel agreed that the Monitoring Officer be asked to draw the attention of the Audit Committee to this aspect of the CSPL's report.

## **Methodology**

9. In early 2020 departmental assurance statements were sent out to all departments seeking assurances about departmental governance arrangements.
- 9.1. In March 2020 Officers performing key corporate roles on behalf of the County Council were asked to produce an appropriate position statement based on the CIPFA guidance.
- 9.2. A copy of 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 considered in preparing the draft Annual Governance Statement in Annex 1.

## **Draft Annual Governance Statement**

10. The content of the draft Annual Government Statement follows the CIPFA guidance and has been prepared in relation to the County Council's Code of Corporate Governance. 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.

## REQUIRED CORPORATE AND LEGAL INFORMATION:

### Links to the Strategic Plan

**This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:**

The preparation and approval of an Annual Governance Statement is a Statutory Requirement.

### 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 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	

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) 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 protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are 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 in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

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

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**ANNUAL GOVERNANCE STATEMENT  
2019/2020**

**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 2019-2020.

## **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 2020 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 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.
- 3.1.4 Covid 19 Specific legislation has been reviewed by senior officers in Legal Services who have worked closely with Departments on the implementation of the relevant provisions.
- 3.1.5 An interim Decision-Making Protocol was prepared and agreed with Cabinet and the Corporate Management Team to facilitate urgent decision making in the initial phases of the response to Covid 19. The Protocol utilises the existing delegated authority of Chief Officers to take a wide range of decisions and ensures that relevant Members are fully sighted on and endorse relevant decisions.
- 3.1.6 The County Council further strengthened the arrangements governing work to advance inclusion and diversity across the Authority and its services, extending this to encompass wellbeing. In addition to a Steering Group, chaired by the Chief Executive, and an Operational Forum, bringing together Equalities Leads and Champions, several new groups have been established. These include a Group chaired by the Assistant Chief Executive to oversee the County Council's formal staff networks and a new Wellbeing Task Group, focused on driving forward work to improve employee wellbeing. In addition, Inclusion Sponsors have been identified within each department. These Senior Offices play an important role in strengthening the County Council's external facing inclusion work, ensuring improvement

actions are embedded within departments and empowering staff at all levels to contribute to this agenda.

- 3.1.7 A strategic work programme is in place which demonstrates how the County Council is delivering against its Equality Objectives. This is informed by staff feedback and the results of external assessment against the National Inclusion Standard, undertaken by Inclusive Employers. The County Council received *Bronze* award following its 2019 assessment, ranking top of the category and third overall. The work programme is reported against on a quarterly basis to the Steering Group, and bi-annually to the Corporate Management Team and Cabinet. This activity enables the County Council to meet, and go beyond, its statutory obligations under the Equalities Act.

### **3.2 Ensuring openness and comprehensive stakeholder engagement.**

- 3.2.1 The County Council's Corporate Strategy – the *Serving Hampshire* Strategic 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 and engagement 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. Significant and statutory consultation is supported by the County Council's Insight and Engagement Unit, which operates within the Market Research Society's ethical Code of Conduct.
- 3.2.4 The results of all significant consultations are presented at the relevant Executive Member Decision Day to demonstrate how participants' views have been considered.
- 3.2.5 Consultation methodology is based on stakeholder analysis and equality impact assessment, undertaken at the outset of planning any engagement. This informs the best approach to reaching the target audience, including those who may be harder to engage. Alongside more traditional forms of engagement, such as surveys, the County Council employs creative tools and techniques where appropriate to engage different audiences. For example, Easy Read versions of surveys are now provided online as standard, as well as in hard copy. Digital platforms, such as Facebook Live, are also being used to engage younger audiences and those who may find it more difficult to attend focus groups in-person.
- 3.2.6 The County Council also regularly undertakes organisation-wide staff surveys on priority topics (e.g. inclusion and diversity; health and wellbeing) as part of a broader programme of employee engagement through a wide

range of platforms and channels. This is underpinned by a new set of agreed principles for encouraging and undertaking staff engagement across departments, approved by the Corporate Management Team.

- 3.2.7 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.
- 3.2.8 In the autumn, a summary of the accounts, investment management and administrative arrangements is made available online to current, pensioner, and deferred members.
- 3.2.9 The Statement of Investment Principles is published and made available to scheme employers within three months of any amendments.
- 3.2.10 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 *Serving Hampshire* Strategic 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. All reports to decision making bodies must also demonstrate their link to the *Serving Hampshire* Strategic Plan, as well as the results of the relevant impact assessments.

### **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 Deputy Chief Executive and 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 and investment return 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. It is the responsibility of the Corporate Risk Management Board to regularly review the Corporate Risk Register and this was last reported to the Audit Committee in February 2020.
- 3.4.9 The Reading Hampshire Property Partnership Limited (RHPP) is a public to public partnership arrangement between Hampshire County Council (HCC) and Reading Borough Council (RBC) for the delivery of property related services. The RHPP was formally established as a limited company in April 2014 and is operated in accordance with the Companies Act 2006. Two named senior officers from each partner organisation are appointed to the roles of Directors of the RHPP and the Board of Directors meets formally twice a year. The RHPP accounts are filed with Companies House and appropriate insurance is held to cover risks. Within HCC, an update on the RHPP is provided to the Buildings Land and Procurement Panel on an annual basis.
- 3.4.10 The governance of *Connect2Hampshire* is underpinned by the LLP Members agreement, which sets out in detail the management arrangements for the joint venture through its Board and Executive Board. The membership of these boards includes the Deputy Chief Executive and Director of Corporate Resources as one of the two LLP Board Members, as well as a further Senior Officer of the County Council as a Member of the Executive Board. This enables the County Council's interests to be fully

represented within the decision making of the LLP, as well as ensuring the successful performance of the LLP to meet the County Councils broader workforce objectives. The Boards responsibilities include agreement of the annual business plan, understanding the LLPs performance against this plan, and the management and oversight of potential emerging risks and issues. The expected levels of service performance are set out within a separate Joint Accountability Statement agreed between HCC and the LLP, with performance against defined Key Performance Indicators being reviewed on a quarterly basis through meetings held between Connect2Hampshire and Senior Officers of the County Council. Clear routes of escalation exist through to HCC's Corporate Management Team, should this be required.

- 3.4.11 Details of the County Council's initial response to the Covid 19 Crisis are set out in the report to Cabinet dated 15 May 2020 [An Early Review of the County Council's Response to the Covid-19 Crisis](#)

### **3.5 Developing the County Council'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 Members on how to manage their relationships effectively.

- 3.5.2 The County Council has a well-established cross-party forum, the Member Development Group that supports and oversees the development of Members to support them in carrying out the responsibilities of their role. This is delivered informally, and via internal and external seminars and courses. The established monthly Briefing Programme continues to be well received and includes annual corporate topics such as finance, treasury management and the County Council's workforce. Preparation of e-learning modules for Members has commenced to include Using Social Media, Handling the Press, Code of Conduct for Members and Disclosable Personal Interests and Decision Making, primarily to support the County Council's Member Induction Programme following the Elections in May 2021, for new Members joining the County Council following a By-Election and as a refresher training resource.

- 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, operating models, ways of working and people development in order to provide effective leadership and deploy appropriate resources to meet the needs of services. In addition, each Department has a Workforce Strategy that aligns the strategic objectives of the services delivered with strategic workforce requirements.

- 3.5.6 The Council's Valuing Performance policy provides a framework for staff and managers to meet, discuss and set goals in line with service requirements, following which regular reviews of performance, learning and progress takes place. Staff continue to be 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 The Council has a thorough management and leadership development program available both for existing leaders as well as those identified as 'high potential'. These leadership programs are underpinned by a leadership competency framework.
- 3.5.8 Organisational learning is approached through a variety of means including through regular joint Corporate and Departmental Management discussions. Lessons learnt exercises are regularly practiced where necessary and appropriate and are undertaken through a 'system wide' perspective. To further support organisational learning a set of engagement principles have been agreed and deployed to ensure a more robust and consistent approach to 'listening' and 'engaging' on the full range of organisational issues.
- 3.5.9 There is an emphasis on the need for high performance and resilience, of which health and wellbeing and continuous development are critical elements in the regular discussions between managers and staff. A Wellbeing survey was completed by staff in early 2019, the feedback from which is informing departmental activity to support staff health and wellbeing. This work is now being overseen centrally by a new Wellbeing Task Group, chaired by the Director of Public Health and Assistant Director of HR and Workforce Development, with actions embedded within the overarching strategic Inclusion, Diversity and Wellbeing work program.
- 3.5.10 The County Council recognises the importance of its staff networks to supporting the inclusion and diversity of its workforce. There are currently three corporate staff networks and several wider staff groups, some of which are seeking to become formal networks. All formal networks have action plans in place, which align with and support the strategic Inclusion, Diversity and Wellbeing work programme. In addition, a set of principles were agreed to support participation in employee networks, including through formally recognising the contribution of Chairs and Vice Chairs through the Valuing Performance process. Membership of these groups continued to grow, and they are having an increasingly positive impact. Activity is overseen by a central group Chaired by the Assistant Chief Executive.

### **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 *Serving Hampshire* Strategic 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, as well as providing an overview of sources of external validation and customer feedback.
- 3.6.2 The County Council has in place a Risk Management Strategy, with oversight of arrangements provided by the Risk Management Board. The Audit Committee is responsible for considering the effect of the County Council's risk management arrangements and reviewing the Corporate Risk register.
- 3.6.3 A comprehensive Information Governance Framework is in place, overseen by the Data Protection Officer, with further oversight by the Risk Management Board, chaired by the Senior Information Risk Officer.
- 3.6.4 The Audit Plan 2019-20 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.
- 3.6.5 The audit plan remains fluid to ensure internal audit's ability to react to the changing needs of the County Council.
- 3.6.6 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.
- 3.6.7 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.
- 3.6.8 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.
- 3.6.9 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.
- 3.6.10 The County Council has a well-developed and effective scrutiny function, the structure of which is formalised through the County Council's Constitution. A pre-scrutiny approach enables Members to be engaged early in the process to ensure they can robustly challenge the Council's decision-making, to participate in policy review and development, and monitor the performance of the County Council as a whole. This function is supported by experienced officers in Democratic and Member Services.

- 3.6.11 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.
- 3.6.12 Key financial regulations and financial strategies form an important part of the Corporate Governance Framework together with effective risk based financial and performance reporting.
- 3.6.13 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 programs that have been a feature of Departmental activity for many years. A new framework for the roles and responsibilities of budget holders and their interaction with the Finance Department are being rolled out across the non-social care departments and are proving effective in improving the financial accountability and expectations of budget managers.
- 3.6.14 Following the outbreak of Covid-19, the County Council has been closely monitoring all aspects of the financial impact of the crisis. Weekly monitoring reports to the Corporate Management Team / Gold Command Group have concentrated on the impacts in 5 main areas :
- Direct response costs
  - Market underwriting
  - Increased demand directly from Covid-19
  - Losses of funding sources or income
  - Other issues including impact on savings programmes
- 3.6.15 Financial reporting to MHCLG has also been taking place on a regular basis to ensure that Government understands the full financial consequences of the crisis both now and moving forward as we move into the recovery phase and consider the longer term implications on our medium term financial strategy. Initial financial resilience within the County council is strong, but there will be implications in the medium term if the Government does not underwrite the full financial consequences of the crisis.
- 3.7 Implementing good practices in transparency reporting and audit to deliver effective accountability.**
- 3.7.1 The report writing guide, 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 the Corporate Management Team 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 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 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.

- 4.3 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.
- 4.4 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.
- 4.5 External sources of validation are being increasingly used to inform assessment of the organisation's 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 completed every year by all Chief Officers giving assurance about the governance arrangements in their Departments.
  - consultation with other relevant officers throughout the County Council.
- 5.5 In line with the Internal Audit Charter approved by the Audit Committee in July 2019 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.

- 5.6 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
- 5.7 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 early 2020.

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

- 6.1 Revisions to the County Councils Risk Management Strategy will be undertaken to reflect recent best practice guidance and to integrate the approach to risk developed in the County Council's leadership programme.
- 6.2 The County Council will publish a new Strategic Plan, setting out its strategic priorities for the period 2021-2025. Alongside this, the current Performance Management Framework will be reviewed and updated.
- 6.3 An internal audit of the County Council's process and policies for undertaking Equality Impact Assessments will be undertaken as part of a wider review of EIA guidance and tools. Feedback will inform the identification and implementation of improvement actions, as appropriate and agreed.
- 6.4 An all staff inclusion survey will be undertaken, providing evidence of progress against the baseline created by the 2018 survey. This will be used to inform ongoing improvement actions, which will be incorporated into the strategic inclusion, diversity and wellbeing work programme.
- 6.5 The County Council will attain assurance of the effectiveness of the governance framework and embeddedness of processes following the agreement of the 2020-22 Risk Management Strategy.
- 6.6 Changes to the County Council's governance arrangements in response to the Covid-19 crisis will be assessed and its governance arrangements optimised take account of the new operating environment.
- 6.7 The County Council will implement changes to Standing Orders and Executive Procedures to facilitate remote/digital Member decision making to ensure ongoing democratic accountability.

## **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 2018-2019 Annual Governance Statement: -**

- 7.1 Significant progress was made to develop capacity and leadership to drive forward inclusion, diversity and wellbeing across the County Council's workforce and wider services. This included reviewing and revising the Inclusion, Diversity and Wellbeing Operational Forum to bring greater focus to the external facing aspects of the County Council's equalities work (i.e. the inclusiveness and accessibility of its services). Updated Terms of Reference and membership are now in place.
- 7.2 Newly appointed Inclusion Sponsors from each department sit on the revamped Operational Forum. These are senior officers responsible for championing inclusion, diversity and wellbeing within their department, embedding improvement actions within services and empowering staff at all levels to contribute to this agenda.
- 7.3 In addition, two further groups were formed as part of the overarching governance architecture. Firstly, a Wellbeing Task Group was established to drive forward actions across departments to enhance employee wellbeing. Secondly, a new group Chaired by the Assistant Chief Executive was formed to oversee the County Council's corporate staff networks.
- 7.4 The County Council participated in Inclusive Employers' National Inclusion Standard (2019) achieving *Bronze* award. The Authority ranked top of the *Bronze* category and third overall. Assessment feedback informed further development of the strategic work programme, which was also expanded to include wellbeing. Significant progress has been made in recent months to deliver agreed actions.
- 7.5 Work was also undertaken to plan for a second inclusion staff survey, due to commence in April 2020. This will provide evidence of progress against the benchmark set in 2018, when the survey was last undertaken, as well as generate insight into new areas, including flexible working.
- 7.6 A new Insurance Strategy has been approved by the County Council, supported by an actuarial review and tender of the County Council's principle insurance policies.
- 7.7 A review of the County Council's Risk Management Strategy has been undertaken, along with a refresh of corporate and departmental risk registers. Improved reporting to the Audit Committee of the risk register has been implemented.
- 7.8 Ownership of the County Council's Anti-Fraud and Corruption and Anti-Bribery Strategies and related policy documents have been passed to Finance to remove accountability from Internal Audit, ensuring they retain sufficient independence to objectively review and report on arrangements in place.

## 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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## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Audit Committee
<b>Date:</b>	23 July 2020
<b>Title:</b>	Annual Treasury Outturn Report 2019/20
<b>Report From:</b>	Deputy Chief Executive and Director of Corporate Resources

**Contact name:** Rob Sarfas

**Tel:** 0370 779 1556

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### Purpose of the Report

1. The County Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the County Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report.

### Recommendations

2. The Audit Committee are asked to note the following recommendations being reported to Cabinet and Full Council:
3. That the outturn review of treasury management activities be noted.

### Executive Summary

4. The report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2019/20.
5. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2020. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification,

monitoring and control of risk are therefore central to the County Council's treasury management strategy.

6. Treasury management in the context of this report is defined as: "The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
7. This annual report sets out the performance of the treasury management function during 2019/20, to include the effects of the decisions taken and the transactions executed in the past year.
8. Overall responsibility for treasury management remains with the County Council. No treasury management activity is without risk and the effective identification and management of risk are integral to the County Council's treasury management objectives.
9. All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2019/20, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the County Council's treasury advisers, Arlingclose.
10. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by full Council on 13 February 2020.

### **External Context**

11. The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions were made in 2019/20.

### **Economic commentary**

12. The UK's exit from the European Union was one of the main drivers of sentiment on the UK economy for the majority of 2019/20, before focus then shifted to the nation's response to the global coronavirus pandemic in the latter part of the year.
13. Prior to the pandemic, labour market data remained positive as the employment rate reached a record high of 76.6% in the three months to



March 2020, unemployment was 3.9%, and annual pay growth was positive in real terms.

14. As the early effects of the pandemic and the government measures to reduce transmission began to be felt, the headline rate of UK Consumer Price Inflation fell to 1.5% year on year in March 2020 (and further still to 0.8% in April 2020), below the Bank of England's target of 2%. Gross Domestic Product growth in Quarter 1 of 2020 is also estimated to have reduced by 2.0% alongside falls in financial markets not seen since the Global Financial Crisis, triggered by a flight to quality into sovereign debt and other perceived 'safe' assets.
15. In response to the spread of the virus, the UK government enforced lockdowns, central banks and governments around the world cut interest rates, and massive stimulus packages were introduced in an attempt to reduce the negative economic impact on domestic and global growth.
16. The Bank of England, which had previously held policy rates at 0.75% through 2019/20, moved in March 2020 to cut rates to 0.25% and then swiftly brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced measures to help businesses and households impacted by a series of social restrictions.

### **Financial markets**

17. Financial markets sold off sharply towards the end of the financial year as the impact of the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30%, with stock markets in other countries seeing similar drops. In March, sterling touched its lowest level against the dollar since 1985.
18. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark fell from 0.75% in April 2019 to 0.26% on 31 March 2020 and there were similar falls in 10-year and 20-year gilts over the same period, dropping from 1.00% to 0.40% and 1.47% to 0.76% respectively.

### **Credit review**

19. Prior to the coronavirus pandemic, both the Fitch and Standard & Poor's rating agencies affirmed the UK's AA sovereign rating and revised the outlook from negative to stable.

20. However, Fitch then downgraded the UK sovereign rating to AA- in March 2020 and revised the outlook on the majority of banks on the Arlingclose counterparty list to negative and in some cases also amended the long-term rating (upwards in the case of Canadian and German banks and downwards for Australian banks).
21. While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the recommended maximum duration for unsecured investments with all these banks was cut to 35 days in mid-March 2020.
22. In December 2019, the Bank of England announced its latest stress test results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would still remain twice the level it was before the 2008 financial crisis, suggesting the banks are in a much stronger position than in 2008.
23. After remaining flat in January and February, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March but remained above their initial 2020 levels.

## Local Context

24. At 31 March 2020, the County Council's underlying need to borrow for capital purposes was £783.5m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £870.4m. These factors are summarised in Table 1 below.

<b>Table 1: Balance Sheet Summary</b>	<b>31/03/19 Balance £m</b>	<b>Movement £m</b>	<b>31/03/20 Balance £m</b>
CFR	780.91	2.57	783.48
Less: Other debt liabilities*	(156.99)	7.56	(149.43)
<b>Borrowing CFR</b>	<b>623.92</b>	<b>10.13</b>	<b>634.05</b>
External Borrowing	(314.02)	6.78	(307.24)
<b>Internal Borrowing</b>	<b>309.90</b>	<b>16.91</b>	<b>326.81</b>
Less: Usable Reserves	(669.46)	26.32	(643.14)
Less: Working Capital	(209.48)	(17.80)	(227.28)
<b>Net Investments</b>	<b>(569.04)</b>	<b>25.43</b>	<b>(543.61)</b>

\* PFI liabilities that form part of the County Council's total debt

25. The CFR increased by £2.6m during 2019/20 as a result of the County Council's capital programme, and other debt liabilities reduced by £7.6m in accordance with the PFI repayment models. External borrowing reduced by £6.8m during 2019/20 as a result of repayment of £9.1m Public Works Loan Board (PWLB) borrowing and other fixed term borrowing of £0.1m, partly offset by a change in the short-term balances held on behalf of other organisations, which vary from year to year. At the end of the 2019/20 financial year the total reserves held by the County Council together with the general fund balance stand at just over £643.1m a decrease of more than £26.3m on the previous year. The decrease in reserves is largely due to the planned use of departmental Cost of Change reserves, reflecting the continued strategy of achieving savings early and then using those savings to fund the next phase of savings delivery and to allow delivery of the more complex savings to be achieved safely over a longer time period.
26. The County Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position at 31 March 2020 and the change during the year is shown in Table 2 below.

<b>Table 2: Treasury Management Summary</b>	<b>31/03/19 Balance £m</b>	<b>Movement £m</b>	<b>31/03/20 Balance £m</b>	<b>31/03/20 Rate %</b>
Long-term borrowing	(271.3)	10.1	(261.2)	4.7
Short-term borrowing	(9.1)	(0.9)	(10.0)	4.1
<b>Total borrowing</b>	<b>(280.4)</b>	<b>9.2</b>	<b>(271.2)</b>	<b>4.6</b>
Long-term investments	342.3	(68.0)	274.3	3.7
Short-term investments	184.0	(78.5)	105.5	1.0
Cash and cash equivalents	56.2	145.5	201.7	0.4
<b>Total investments</b>	<b>582.5</b>	<b>(1.0)</b>	<b>581.5</b>	<b>2.1</b>
<b>Net investments</b>	<b>302.1</b>	<b>8.2</b>	<b>310.3</b>	

Note: the figures in the table above are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest, short term balances held on behalf of others, and other accounting adjustments

27. The increase in net investments of £8.2m shown in Table 2 above reflects the combination of repayment of PWLB borrowing of £9.2m and a small reduction in investment balances of £1.0m. The repayment of borrowing is in line with the County Council's policy on internal borrowing.

## Borrowing Update

28. On 9 October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears expensive relative to other options. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.
29. The Chancellor's March 2020 Budget Statement included significant changes to PWLB policy and launched a wide-ranging consultation on the PWLB's future direction. This was in part as a response to what HM Treasury describes as a minority of councils using cheap PWLB finance to buy significant amounts of commercial property for rental income, reducing the availability of PWLB finance for core local authority activities. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields (which would not directly affect the Council as it is not a Housing Authority), and £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.
30. The consultation closes on 31 July 2020 with implementation of the new lending terms expected in the latter part of this calendar year or financial year beginning 2021/22, and the County Council intends to respond to the consultation.

## Borrowing Activity

31. At 31 March 2020 the County Council held £271.2m of loans (a decrease of £9.2m from 31 March 2019) as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3 below.

<b>Table 3: Borrowing Position</b>	<b>31/03/19 Balance £m</b>	<b>Net Movement £m</b>	<b>31/03/20 Balance £m</b>	<b>31/03/20 Weighted Average Rate %</b>	<b>31/03/20 Weighted Average Maturity (years)</b>
Public Works Loan Board	(235.6)	9.1	(226.5)	4.7	11.2
Banks (LOBO)	(20.0)	-	(20.0)	4.8	13.3
Other (fixed term)	(24.8)	0.1	(24.7)	3.7	17.1
<b>Total borrowing</b>	<b>(280.4)</b>	<b>9.2</b>	<b>(271.2)</b>	<b>4.6</b>	<b>11.18</b>

Note: the figures in the table above are from the balance sheet in the County Council's statement of accounts but adjusted to exclude short term balances held on behalf of others, and accrued interest.

32. 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. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
33. Short-term interest rates have remained much lower than long-term rates and the County Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.
34. With the assistance of Arlingclose, the benefits of this internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years, when long-term borrowing costs may be higher.
35. As a result, no new borrowing was undertaken and £9.1m of existing PWLB loans were allowed to mature without replacement. This strategy enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
36. The County Council continues to hold £20.0m of LOBO (Lender's Option Borrower's Option) loans 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.

### **Treasury Investment Activity**

37. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £547m and £677m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4 overleaf.
38. The increase in short term investment balances was the result of the Council preparing to pay employer's pension contributions early on 1 April 2020 in order to achieve significant savings in the cost of these contributions over the coming 3-year period.

<b>Table 4: Treasury Investment Position</b>	<b>31/03/2019 Balance £m</b>	<b>Net Movement £m</b>	<b>31/03/2020 Balance £m</b>	<b>31/03/20 Income Return %</b>	<b>31/03/20 Weighted Average Maturity years</b>
Short term investments					
- Banks and Building Societies:					
- Unsecured	30.4	(4.1)	26.3	0.68	0.00
- Secured	15.0	-	15.0	0.81	0.25
- Money Market Funds	55.3	120.0	175.3	0.38	0.00
- Local Authorities	124.5	(44.0)	80.5	1.01	0.27
- Registered Provider	5.0	(5.0)	-	-	-
- Cash Plus funds	10.0	-	10.0	1.37	0.01
<b>Total</b>	<b>240.2</b>	<b>66.9</b>	<b>307.1</b>	<b>0.63</b>	<b>0.08</b>
Long term investments					
- Banks and Building Societies:					
- Secured	73.3	(40.1)	33.2	0.99	2.36
- Local Authorities	78.0	(38.0)	40.0	1.47	1.91
<b>Total</b>	<b>151.3</b>	<b>(78.1)</b>	<b>73.2</b>	<b>1.25</b>	<b>2.11</b>
Long term investments – high yielding strategy					
- Local Authorities					
- Fixed deposits	20.0	0.2	20.2	3.97	13.93
- Fixed bonds	10.0	-	10.0	3.78	13.77
- Pooled Funds					
- Pooled property**	67.0	10.0	77.0	4.08	N/A
- Pooled equity**	52.0	-	52.0	5.89	N/A
- Pooled multi-asset**	42.0	-	42.0	4.52	N/A
<b>Total</b>	<b>191.0</b>	<b>10.2</b>	<b>201.2</b>	<b>4.61</b>	<b>13.88</b>
<b>Total investments</b>	<b>582.5</b>	<b>(1.0)</b>	<b>581.5</b>	<b>2.08</b>	<b>1.46</b>

\*\* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2020.

Note: the figures in the table above are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

39. The CIPFA Code and government guidance both require the County Council

to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The County Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults alongside managing the risk of receiving unsuitably low investment income.

40. Security of capital has remained the County Council's main investment objective and has been maintained by following the County Council's counterparty policy as set out in the Treasury Management Strategy Statement.
41. Counterparty credit quality has been assessed and monitored with reference to credit ratings, the analysis of funding structures and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
42. The County Council also makes use of secured investment products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
43. The UK Bank Rate was cut from 0.75% to 0.25% and then 0.10% in March 2020 due to the effects of the coronavirus pandemic on the economy. Rates had been historically low even prior to these cuts, impacting the Council's ability to generate income on cash investments.
44. Against this backdrop the County Council has sought to optimise returns commensurate with the objectives of security and liquidity, achieving a rate of return of 0.97% on internally managed funds at 31 March 2020 whilst also maintaining sufficient liquidity through the use of call accounts and money market funds.
45. The progression of credit risk and return metrics for the County Council's investments that are managed in-house (excluding external pooled funds) are shown in extracts from Arlingclose's quarterly investment benchmarking in Table 5 below. This compares the data for the quarter ended 31 March 2020 with the same period from the previous year.

<b>Table 5: Investment Benchmarking (excluding pooled funds)</b>	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2019	AA	21%	758	1.35%
31.03.2020	AA	50%	551	0.97%
Similar LAs	AA-	41%	644	0.92%

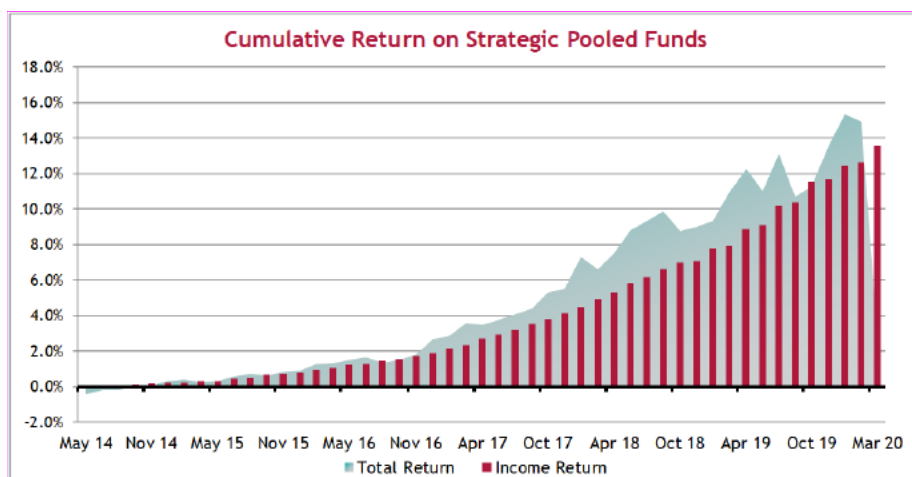
<b>Table 5: Investment Benchmarking (excluding pooled funds)</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>Weighted Average Maturity (days)</b>	<b>Rate of Return %</b>
All LAs	AA-	56%	20	0.64%

46. Table 5 shows the average credit rating of the portfolio remained at a high level of AA at 31 March 2020. This was alongside increased liquidity in part to fund the prepayment of three year's Pension Fund contributions on 1 April 2020. This increased liquidity meant higher bail-in exposure as a greater proportion of the Council's funds were invested in money market funds, which invest in instruments that are liable to bank bail-in but which are highly diversified therefore reducing this risk.
47. Interest rates on shorter duration investments are often lower and, coupled with the impact of the two Bank Rate cuts in March, meant average investment returns at 31 March 2020 were lower than at the same time the previous year. These returns were however greater than other Local Authorities covered by Arlingclose's benchmarking and the County Council's internal investment portfolio also compared favourably to the benchmark in terms of the average credit rating. Bail-in exposure was higher than for other similar Local Authorities and the weighted average maturity period was shorter, both of which were as a result of holding cash to make the large advance pension contributions payment on 1 April 2020.
48. As the County Council has relatively stable cash balances, the allocation to investments targeting higher yielding investments was increased to £235m as part of the Treasury Management Strategy Statement for 2019/20, with the aim of increasing the level of income contributed to the revenue budget without impacting liquidity.
49. £201m of this amount has now been invested, and the high yielding strategy overall generated an average income return of 4.61%, contributing to an average return for the investment portfolio in aggregate of 2.08% at 31 March 2020. By comparison, the average income return at 31 March 2020 for all other investments was 0.75%. This would equate to £9.3m of income from the high yielding strategy and £2.9m from all other investments based on the snapshot of investments at 31/03/20.
50. As part of the high yielding strategy, the County Council has £171m of core balances invested in externally managed pooled property, equity and multi-asset funds, which allow diversification into asset classes other than cash without the need to own and manage the underlying investments. The County Council also invests a further £10m into an externally managed cash plus pooled fund, which forms part of its short-term cash portfolio.



51. Pooled fund investments in property, equities and bonds are likely to be more volatile than cash in the short-term but generate regular revenue income whilst also providing diversification and the potential for enhanced returns over the longer term.
52. The impact of the COVID-19 pandemic on financial markets at the end of the financial year meant that the Council's investments in these pooled funds suffered a £22.4m fall in capital value (12.84%) over the year to 31 March 2020, meaning these investments are now worth £18.8m less than the Council originally invested. This will only result in the Council losing money if the assets are sold before they have regained their value and the Council has always planned to hold these investments for at least the medium term, accepting that capital values would move both up and down in the short term. Under the accounting standard IFRS 9 the Council must in the meantime defer these fair value losses to the Pooled Fund Adjustment Account, which is available until at least 2023/24.
53. The fall in the capital value of the County Council's pooled funds during 2019/20 reflects the wider market reaction to the coronavirus pandemic, with large falls in equity prices and corporate bond markets, and property markets also affected. Market volatility, as measured by the VIX index, was historically high as investors reacted to the unprecedented situation and attempted to forecast the likely impact on economies, businesses, and individuals. The unrealised capital losses (the 'drawdown' referred to by fund managers) in equity income funds owned by the County Council were especially large at -19.6% and -33.2% respectively.
54. Although capital values fell, the pooled funds delivered strong positive income returns during 2019/20, contributing £8.2m income (a return of 4.65%pa) to the revenue budget to support the provision of services by the County Council, significantly more than could have been achieved through cash investments, and in line with the Council's agreed objective of targeting income of 4% per annum from the high yielding strategy.
55. The total return in 2019/20, allowing for the fall in capital value but offset in part by the income generated, was a loss of £14.3m (8.19% pa).
56. The cumulative total return from the County Council's investments in pooled equity, property and multi-asset funds since purchase is shown in the graph overleaf. This highlights that the County Council has benefited from the strong and steady income returns over time.
57. The volatility experienced due to the COVID-19 pandemic has been significant, but this period has not completely eroded the total cumulative positive returns made over the time that these investment have been held by the County Council, and although the pooled funds are reporting a negative

capital return of 12.84% for the year to 31 March 2020, the cumulative total return from these investments since purchase is positive at 2.70% (made up of a 10.94% capital loss and a 13.65% income return).



58. Strategic pooled fund investments are made as long-term investments using core balances that aren't required for current day-to-day liquidity. Investments are made based on advice from Arlingclose and in the knowledge that capital values will move both up and down in the short term but with confidence that over longer periods total returns will exceed cash interest returns.
59. These investments have no defined maturity date, but are available for withdrawal after a notice period and their performance and continued suitability in meeting the County Council's investment objectives is monitored regularly and discussed with Arlingclose
60. Given the exceptional impact of the COVID-19 crisis on financial markets, the investments in pooled funds have been reviewed with Arlingclose. Despite the current fall in capital values, Arlingclose's advice remains that these investments continue to be appropriate for the Council and will have a positive impact on the County Council's investment income.

### Financial Implications

61. The outturn for debt interest paid in 2019/20 was £13.4m against a budgeted £13.7m on an average debt portfolio of £275.8m.
62. The outturn for investment income received in 2019/20 was £13.4m on an average investment portfolio of £617m, giving a yield of 2.17%. By comparison, investment income received in 2018/19 was £12.9m on an average portfolio of £618m with a yield of 2.09%.

## Non-Treasury Investments

63. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the County Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in Ministry of Housing, Communities & Local Government's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
64. This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.
65. The County Council's existing non-treasury investments are listed in Table 6 below.

<b>Table 6 – Non-Treasury Investments</b>	31/03/20 Asset value £m	31/03/20 Rate %
Loans to Hampshire based business	9.5	4.00
Joint venture recruitment agency	0.2	5.00
<b>Total</b>	<b>9.7</b>	<b>4.02</b>

## Compliance Report

66. The County Council confirms compliance of all treasury management activities undertaken during 2019/20 with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.
67. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 7 below.

<b>Table 7 – Debt Limits</b>	<b>2019/20 Maximum</b>	<b>31/03/20 Actual</b>	<b>2019/20 Operational Boundary</b>	<b>2019/20 Authorised Limit</b>	<b>Complied?</b>
Borrowing	280	271	700	740	✓
PFI and Finance Leases	157	149	150	190	✓
<b>Total debt</b>	<b>437</b>	<b>421</b>	<b>850</b>	<b>930</b>	<b>✓</b>

## Treasury Management Indicators

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

### Interest Rate Exposures

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

<b>Table 8 – Interest Rate Exposures</b>	<b>31/03/20 Actual</b>	<b>Impact of +/- 1% interest rate change</b>
Sums subject to variable interest rates		
Investment	£338m	+/- £3.4m
Borrowing	£23m	+/-£0.2m

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

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

<b>Table 9 – Maturity Structure of Borrowing</b>	<b>31/03/20 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied</b>
Under 12 months	5%	50%	0%	✓
12 months and within 24 months	3%	50%	0%	✓
24 months and within 5 years	10%	50%	0%	✓
5 years and within 10 years	19%	75%	0%	✓
10 years and within 20 years	53%	75%	0%	✓
20 years and within 30 years	10%	75%	0%	✓
30 years and above	0%	100%	0%	✓

71. The County Council holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as 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. If not repaid before maturity, these loans have an average maturity date of 14 years

(minimum 7 years; maximum 25 years).

### **Principal Sums Invested for Periods Longer than a year**

72. 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 long-term principal sum invested to final maturities beyond the period end were:

<b>Table 10 – Principal Sums Invested Longer than a year</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Actual principal invested beyond year end	£374m	£246m	£211m
Limit on principal invested beyond year end	£410m	£330m	£330m
Complied?	✓	✓	✓

73. The table includes investments in strategic pooled funds of £171m as although these can usually be redeemed at short notice, the County Council intends to hold these investments for at least the medium-term.

### **Other**

#### **IFRS 16**

74. CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2021/22.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

**This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because it relates to the effective management of the County Council's cash balances.**

**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

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) 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 protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are 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 in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

Equalities objectives are not expected to be adversely impacted by the proposals in this report.

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## HAMPSHIRE COUNTY COUNCIL

### Report

<b>Decision Maker:</b>	Audit Committee
<b>Date:</b>	23 July 2020
<b>Title:</b>	Higher yielding strategy update
<b>Report From:</b>	Deputy Chief Executive and Director of Corporate Resources

**Contact name:** Rob Sarfas

**Tel:** 0370 779 1556

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### Purpose of the Report

1. The County Council invests a proportion of core balances in investments targeting yields of 4% to support the Council's revenue budget. This report provides an update on the performance and ongoing review and scrutiny of these investments.
2. This report has been written in response to a request from Members at the last meeting of the Audit Committee in February 2020 to provide further information on investment management and the County Council's investments targeting higher yields.

### Recommendations

3. The Audit Committee are asked to note the contents of this report.

### Executive Summary

4. The County Council holds a portfolio of investments of £201.2m targeting higher yields of around 4% per annum. These investments have been made from the County Council's most stable investment balances and have been made in line with the requirements of the CIPFA Code, whereby the County Council must have regard to the security and liquidity of its investment balances before seeking the highest yield.
5. The County Council is advised on its investment decisions by its treasury management advisor, Arlingclose, and after considering its treasury management options has invested in a diversified range of pooled investment vehicles as well as a number of long term deposits and bonds.

This diversification helps to mitigate the risks associated with holding these investments.

6. The County Council's objective is to deliver income returns of around 4% each year. As such it invests in income distributing share classes of pooled funds that are designed to provide the level of income required. The County Council is not therefore investing with the primary objective of achieving capital growth, although all of the funds in which it is invested aim to deliver some degree of capital growth alongside the targeted income returns.
7. Having reviewed and rejected alternative options, it is important for the County Council to continue to monitor the effectiveness of its investments in pooled funds and their ongoing suitability. This is achieved through monitoring and scrutiny conducted by officers alongside the ongoing review, due diligence, and advice provided by Arlingclose.
8. Since the inception of the higher yielding strategy, and particularly since the amount earmarked to the strategy was increased to £200m in 2017, these investments have delivered a significant positive contribution to the County Council's revenue budget.
9. The County Council's investments in pooled funds have generated an annualised income return of 4.57%. This equates to over £24m of dividend and interest payments since 2014, of which £18.8m relates to the last 3 financial years, which has supported the County Council's services and reduced the need for further savings through this period of austerity.
10. The investments in pooled funds suffered reductions in value during March 2020 as markets reacted to the global Coronavirus pandemic. The long term impact has been assessed by Arlingclose, who have provided assurance that they anticipate capital values to recover over the County Council's investment horizon. In addition, the investments are expected to continue to provide the County Council with income returns significantly in excess of what could be achieved from more traditional cash based investments.

### **The higher yielding strategy**

11. The CIPFA Treasury Management in the Public Services: Code of Practice 2017 (the CIPFA Code) requires local authorities to determine a Treasury Management Strategy Statement before the start of each financial year.
12. When setting the Treasury Management Strategy for 2014/15 the County Council was faced with an historically low interest rate environment and decided to earmark part of its cash balances to investments appropriately

targeting higher yields of around 4%, with the aim of increasing the total level of income contributed to the revenue budget.

13. The strategy initially earmarked £105m, with the County Council subsequently agreeing to increase this amount to £200m in 2017 and to £235m in 2019. After analysing anticipated future cash flows this earmark of £235m was maintained as part of the Treasury Management Strategy for 2020/21.
14. The CIPFA Code requires the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the County Council's investments seeking higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome, and mitigates the risk of having to sell an asset for a loss for liquidity purposes, helping to ensure the long-term security of the Council's investment.
15. The authority to make investments under the higher yielding strategy is delegated to the Deputy Chief Executive and Director of Corporate Resources. Decisions will only be made after first taking advice from Arlingclose, the County Council's treasury management advisor.
16. The County Council's current portfolio of investments targeting higher yields is summarised in Table 1.

**Table 1**

<b>Investment type</b>	<b>Amount invested</b>
Fixed bonds	£10.0m
Fixed deposits	£20.2m
Pooled property funds	£77.0m
Pooled equity funds	£52.0m
Pooled multi-asset funds	£42.0m
<b>Total</b>	<b>£201.2m</b>

17. Following advice from Arlingclose, the County Council has constructed an investment portfolio that is diversified across asset classes and regions, as

shown in Table 1. This has been achieved by investing in pooled investment vehicles (pooled funds) alongside long term lending to other local authorities, the purchase of long-term bonds and, more recently, loans relating to the Manydown development project. This diversification helps to mitigate the risk of overexposure to a single event affecting a specific asset class. The use of pooled funds has also enabled the County Council to achieve a greater degree of diversification than could effectively have been done by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example for property investments managing the relationship with tenants and the maintenance of buildings.

18. Diversification in itself does not guarantee positive outcomes. The selection of pooled funds has been carefully managed to target funds with a strong performance track record and objectives that are well aligned to the County Council's aim of achieving income returns of around 4%pa without putting its initial investment at undue risk over the longer term. The County Council is therefore invested in funds that specialise in providing income returns to support the revenue budget. As a result of their income focus these funds may not achieve the same capital growth and therefore total return, as other more general investment funds.
19. The investible universe for pooled funds is vast and part of the service provided by Arlingclose as treasury advisors is to conduct research and suitable due diligence on pooled funds prior to making recommendations to their clients.
20. Past performance does not guarantee that funds can replicate successful outcomes in future and knowing which funds will perform well is not an exact science. The County Council therefore conducts its own ongoing review and scrutiny of the performance of its pooled fund investments. The County Council will also discuss these investments regularly with Arlingclose, who provide advice based on regular meetings with representatives from the pooled funds and their own ongoing due diligence on areas such as performance and investment style, strategy and process.

### Other options

21. The County Council has considered and rejected the following alternative investment options when implementing the higher yielding strategy.

Option	Rationale for rejecting option
Continue to invest solely in traditional treasury investments such as bank	The County Council has been faced with an historically low interest rate environment for several years. Investing only in less volatile

<p>deposits, money market funds, treasury bills and bonds, and by lending to other local authorities, to reduce risk and give a narrower range of potential investment outcomes</p>	<p>instruments would have resulted in significantly lower investment income which would have increased the savings required from departmental budgets as part of the Council's transformation programmes. The risks associated with investing in more volatile asset classes are mitigated by holding a diversified portfolio of investments with the understanding that these investments will be held for at least the medium term. In addition, investing in pooled funds helps the County Council to avoid the risk of bail-in associated with holding deposits with UK banks.</p>
<p>Invest in directly owned assets such as shares and property with the benefit of avoiding investment management fees associated with pooled funds</p>	<p>The County Council will buy and own individual bonds and make long term loans, however investing in pooled equity, property and multi-asset funds allows the County Council to achieve greater diversification than by investing in individual assets in these areas, reducing the risk to the County Council. This is consistent with Arlingclose's recommendation that the County Council has a diversified investment portfolio. Pooled funds also benefit from specialist external fund managers to select and manage investments. Investment returns are reduced due to fees paid to pooled fund investment managers but the County Council does not have to directly contract and pay specialist asset managers, for example to manage the relationship with property tenants and building maintenance.</p>
<p>Invest in pooled funds seeking greater capital returns</p>	<p>All of the pooled funds in which the County Council is invested aim to generate a positive capital return, but it is not their primary aim. The County Council's objectives are to comply with the CIPFA Code whilst generating income returns to support the revenue budget and preserving the capital balance over the longer term (i.e. generating a total return over the longer term that is greater than cash investments). The pooled funds the County Council has invested in have been recommended by Arlingclose as they are considered to be most suitable for</p>

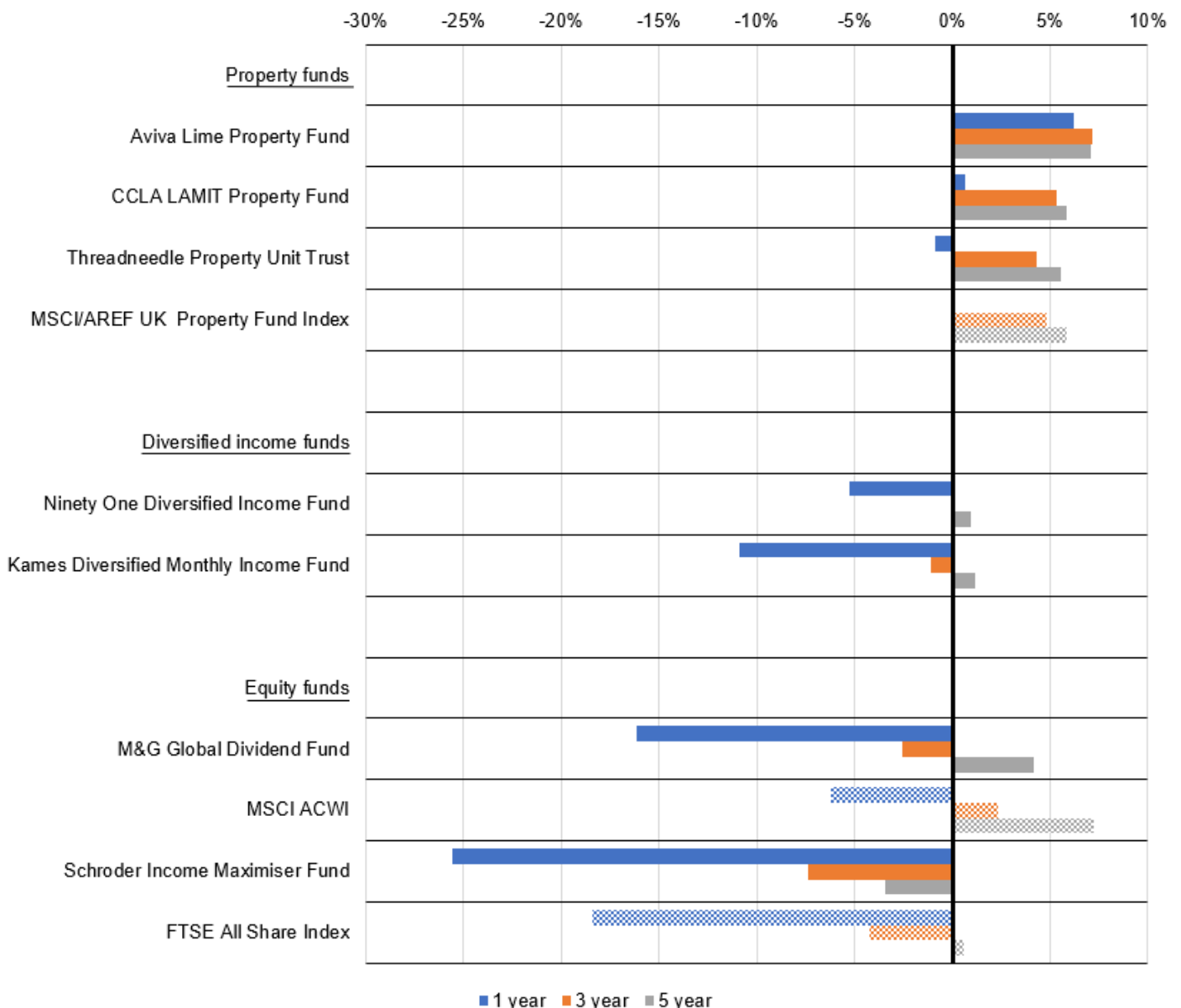
	<p>achieving these objectives. Pooled funds seeking to deliver greater capital growth would not deliver the steady income returns required to support the Council's revenue budget.</p>
<p>Invest in accumulation share classes to target greater capital growth over the longer term</p>	<p>One of the County Council's primary objectives when investing in pooled funds is to deliver regular and relatively stable income to support the revenue budget. The County Council therefore invests in income share classes, which provide regular income but reduce the potential for longer term capital gains.</p>
<p>Invest additional sums in pooled funds to target higher returns instead of pre-paying LGPS employer's pension contributions for 2020/21 to 2022/23 in April 2020.</p>	<p>The payment in advance of pension contributions is expected to generate a saving for the Council, net of investment income foregone on cash balances, of approximately £3m per annum for 3 years. This saving is the result of making one lump sum payment in April 2020 instead of smaller monthly payments. This impacts the County Council's cash flow by varying the timing of the payment of pension contributions but does not have a significant impact on the longer term cash balance. It is effectively the County Council investing money for a 3 year period and having this repaid over that timeframe by not making monthly pension payments. The County Council would not have invested money in pooled funds for a 3 year period. Investing some or all of this money in pooled funds would not have been consistent with the CIPFA Code and would have impacted the County Council's liquidity as pooled fund investments must be considered as long term investments to protect the security of the Council's initial investment.</p>

22. The County Council continues to regularly review the ongoing appropriateness of its investments and discusses alternative options with Arlingclose.

## Performance and benchmarking of the higher yielding strategy

23. The County Council has invested in 7 pooled funds as part of the higher yielding strategy and the total return of these funds against relevant comparator benchmarks is shown in Chart 1. This shows that the property funds have generally performed well over the 1, 3 and 5 year periods when compared with the wider market, whereas the equity funds have not matched the benchmark performance. As explained in paragraph 18, income equity funds may underperform the benchmark as they may sacrifice some capital growth to meet their objective of income returns. The diversified funds are not compared to a benchmark as they can invest in a variety of asset classes, but Ninety One and Kames target income returns of 4% and 5% respectively, with the potential for some capital growth.

**Chart 1 - Pooled fund performance p.a. over 1, 3 and 5 years at 31/3/20**



24. The performance of the County Council's investments in these funds will vary from the fund level performance data shown in Chart 1. This is because the County Council has made investments into these funds at various intervals since 2014 as the higher yielding strategy has evolved. Arlingclose also does not recommend that the County Council tries to time the market when making investments and when the County Council has invested it has therefore done so in tranches to mitigate the risk of buying at the top of the market.
25. Table 2 below shows the income track records of the 7 pooled funds over the same 1, 3 and 5 year periods and demonstrates the consistent levels of income being returned by these funds, which forms part of the assessment of their ongoing suitability by officers and Arlingclose.

**Table 2 – pooled fund income returns**

	1 year	3 year p.a.	5 year p.a.
<b>Property funds</b>			
Aviva Lime Property Fund	3.81%	3.98%	4.09%
CCLA LAMIT Property Fund	4.24%	4.44%	4.48%
Threadneedle Property Unit Trust	4.70%	4.70%	4.71%
<b>Diversified income funds</b>			
Ninety One Diversified Income Fund	4.13%	3.99%	3.68%
Kames Diversified Monthly Income Fund	4.85%	4.70%	4.48%
<b>Equity funds</b>			
M&G Global Dividend Fund	3.40%	3.13%	3.47%
Schroder Income Maximiser Fund	7.68%	6.82%	6.53%

26. The performance of the County Council's own holdings in these pooled funds is shown in Table 3, broken down between the capital return, the level of income generated, and the total return. It should be noted that the capital return (gain or loss) will only be realised if the County Council sells its investments in these pooled funds.



**Table 3 – Pooled fund returns since purchase**

<b>Pooled fund</b>	<b>Capital return</b>	<b>Income return</b>	<b>Total return</b>
Aviva Lime Property Fund	5.07%	14.14%	19.21%
CCLA LAMIT Property Fund	-5.47%	17.58%	12.11%
Kames Diversified Monthly Income Fund	-6.24%	6.78%	0.54%
M&G Global Dividend Fund	3.93%	10.74%	14.67%
Ninety One Diversified Income Fund	-6.98%	12.26%	5.28%
Schroder Income Maximiser Fund	-33.34%	18.56%	-14.79%
Threadneedle Property Unit Trust	-6.89%	13.92%	7.03%
<b>Total</b>	<b>-8.45%</b>	<b>14.24%</b>	<b>5.79%</b>

27. Table 3 shows that all of the County Council's pooled funds have delivered a positive total return, with the exception of the Schroder Income Maximiser Fund. The Schroder fund invests primarily in UK equities, which have been particularly badly affected by the Coronavirus pandemic. This resulted in a significant reduction in the fund's value during March 2020, albeit there has been a partial rebound since. The Schroder fund has, however, continued to deliver strong income returns to the significant benefit of the County Councils' revenue budget (in excess of 7.5% in 2019/20) and has contributed more income on a percentage basis than any of the County Council's other pooled funds. This is in line with the fund's stated objective of providing income with the potential for capital growth, which it does largely through owning equities that pay dividends and the use of derivatives (short dated call options).
28. In aggregate, the County Council's investments in externally managed pooled funds have achieved the objective of delivering annual income returns of about 4%. These investments have generated in excess of £24m in dividend payments since the first investment was made in 2014 and have produced an annualised income return of 4.57%. This additional investment income has helped to reduce the overall level of savings the County Council has had to find from its service revenue budgets during the various iterations of its transformation programme.
29. Table 4 shows the income generated by the higher yielding strategy since the allocation to these investments was increased to £200m in 2017. For comparison, had the County Council held solely more traditional treasury management investments, only half the income (approximately £18m) could have been achieved over the same 3 year period assuming a yield of 1% on average investment balances.

**Table 4 – investment income**

Year	Pooled funds	Other higher yielding investments	All other investments	Total
2017/18	£4.6m	£1.2m	£4.7m	£10.5m
2018/19	£6.0m	£1.2m	£5.5m	£12.7m
2019/20	£8.2m	£1.2m	£4.0m	£13.4m
<b>Total</b>	<b>£18.8m</b>	<b>£3.6m</b>	<b>£14.2m</b>	<b>£36.6m</b>

30. It is also possible to benchmark the County Council's investment performance against other local authorities. Table 5 shows extracts from Arlingclose's quarterly benchmarking and provides a snapshot as at the end of the 2018/19 and 2019/20 financial years. The returns will vary from quarter to quarter for a variety of macroeconomic and investment specific reasons, but this benchmarking data suggests that the County Council is achieving income returns in excess of the average for other local authorities, and also highlights the significant difference in returns between externally and internally managed funds for the County Council and other local authorities.

**Table 5 – Investment returns benchmarked against other Arlingclose clients**

<b>As at 31 March 2019</b>	<b>Hampshire County Council</b>	<b>Other similar local authorities</b>	<b>All local authorities</b>
External funds - capital gain/loss	1.14%	0.24%	-0.12%
External funds - income return	4.78%	3.68%	3.78%
Internal funds – income return	1.35%	1.02%	0.85%
All investments - income return	2.37%	1.56%	1.45%
All investments - total return	2.71%	1.61%	1.43%

<b>As at 31 March 2020</b>	<b>Hampshire County Council</b>	<b>Other similar local authorities</b>	<b>All local authorities</b>
External funds - capital gain/loss	-12.35%	-8.82%	-7.62%
External funds - income return	4.54%	4.04%	3.73%
Internal funds – income return	0.97%	0.92%	0.64%
All investments - income return	2.00%	1.55%	1.23%
All investments - total return	-1.56%	-0.39%	-0.34%

Note: for the purposes of this benchmarking data, investments in cash plus funds are shown as external funds however these are not considered long term investments by the County Council and do not form part of the higher yielding strategy.

31. When reviewing the investments held as part of the higher yielding strategy, the County Council monitors whether the portfolio is achieving the stated objectives in aggregate and also how well individual pooled funds are performing. The careful monitoring of this performance is of particular importance to the County Council because it is recognised that the value of these investments will be more volatile than traditional cash instruments and will have a wider range of potential investment outcomes, particularly in the short term.
32. The monitoring of pooled fund investments is conducted both by County Council officers and by Arlingclose. Arlingclose conduct regular meetings with fund managers and carry out ongoing due diligence on behalf of their clients. The County Council's officers review performance data and information provided by the funds and, as the portfolio has now grown to sufficient size, also hold update meetings with representatives of the pooled funds directly in order to provide further scrutiny. To date, officers have met with Kames, CCLA, Schroders and NinetyOne (formerly Investec) during 2020.
33. As long as the County Council does not need to sell its pooled fund investments in the short term, it can wait for capital values to recover from their current position while continuing to receive the benefit of income returns significantly in excess of what could be achieved from cash investments (particularly given Bank Rate was cut to 0.1% in March 2020 and some gilts are trading at negative yields).
34. The County Council must also be mindful of the requirements of the accounting standard IFRS 9, however there is a statutory override in place that means any gains or losses in capital value do not need to be taken as charges to the County Council's revenue account for at least a further 3 financial years.
35. In addition to the usual ongoing due diligence, discussions have been held between Arlingclose and the fund managers about the impact of the global coronavirus pandemic. This has focused not only on fund values but also the ability to continue to provide the targeted investment returns. Arlingclose have provided advice on the potential income impact and the County Council has therefore reduced its interest income forecast for 2020/21. This is in addition to the impact on returns on cash based investments linked to recent reductions in interest rates. A reduction of £3.5m was reported in the paper to Cabinet on the financial impacts of Covid-19 in May 2020.

36. As a result of this ongoing due diligence Arlingclose continue to recommend the funds in which the County Council is invested. Arlingclose's view remains that capital values can be expected to recover over the County Council's investment horizon, including for the Schroder Income Maximiser Fund, and that they expect these pooled funds to be positive contributors to the County Council's treasury management position by delivering income returns in excess of what could be achieved in the current very low interest rate environment.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

**This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because it relates to the effective management of the County Council's cash balances.**

**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

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) 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 protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are 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 in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

Equalities objectives are not expected to be adversely impacted by the proposals in this report.

## HAMPSHIRE COUNTY COUNCIL

### DRAFT Report

<b>Decision Maker:</b>	Audit Committee
<b>Date:</b>	23 July 2020
<b>Title:</b>	Related Party Transactions Disclosure 2019/20 - Update
<b>Report From:</b>	Deputy Chief Executive and Director of Corporate Resources

**Contact name:** Anne Hibbert – Head of Corporate Finance

**Tel:** 0370 779 7883

**Email:** anne.hibbert@hants.gov.uk

#### **Purpose of this Report**

1. This report updates the Audit Committee on related party transactions declarations that remain outstanding from Councillors and recommends consequent action.

#### **Recommendation(s)**

2. For the current County Councillors who have not returned their 2019/20 related party transactions declaration to the Deputy Chief Executive and Director of Corporate Resources, those Councillors will be referred to the Conduct Advisory Panel.

#### **Executive Summary**

3. This report details the effort expended to obtain related party transactions declarations from all Councillors and identifies two Councillors who have not responded as at the date of writing the report. Consequently, it is recommended to refer the Councillors to the Conduct Advisory Panel.

## **Contextual information**

4. In accordance with the Code of Practice for Local Authority Accounts, the County Council's statement of accounts includes information about its related parties and any transactions between those parties. A related party is an entity or person who is related to the reporting authority and who has control and/or significant influence over the authority. For the County Council, this includes:
  - County Councillors
  - Chief Officers.
  - Members of the close family of, or same household as, a County Councillor or Chief Officer.
  - Partnership, companies, trusts or other bodies in which the County Councillor, Member or Chief Officer, member of their close family or same household, has a controlling interest, or where their influence amounts to control.
5. Each year, the Deputy Chief Executive and Director of Corporate Resources requests a declaration from each County Councillor. This request is in addition to the registration of pecuniary and personal interests and specifically requires a declaration regarding related party transactions in the financial year.
6. In recent years, the return of related party declarations from County Councillors has been less than 100%. This issue of non-compliance and its impact on the County Council's ability to demonstrate and ensure probity of transactions within its accounts was identified in the external auditor's report to the Audit Committee in September 2016.

## **Approach and position for 2019/20**

7. Declarations are required retrospectively in relation to the full financial year. For 2019/20, the Deputy Chief Executive and Director of Corporate Resources requested declarations via an email sent to every Councillor on 17 March 2020 with a return date of no later than 6 April 2020. The text of the request was stated clearly and the declaration required was returnable by email.
8. As at 6 April, 34 declarations were outstanding. This was a larger number than in previous years, but perhaps not surprising given the exceptional circumstances of the COVID-19 crisis in late March and into April. Individual reminders were emailed on 16 April stating the final deadline of 22 April. At the end of April, 17 declarations remained outstanding and these were followed up by the Monitoring Officer and Political Group Leaders during May. As at 5 June, two declarations remained outstanding and the Chairman of the Audit Committee was notified. The Chairman contacted both councillors, however, at the time of writing this report, declarations remain outstanding from:
  - Councillor A Carew
  - Councillor R Dibbs
9. These Councillors have been made aware that it is a requirement to return a related party transactions declaration and failure to do so would be a breach of



the code of conduct, as this is a procedure of Hampshire County Council to satisfy its External Auditors, that all related party transactions have been declared. External Auditors will be checking as part of the year end audit process that all returns have been made and are in order.

10. Given there has been no change to this standard annual requirement and that these Councillors have not responded to four official requests to return their declaration, the Audit Committee is recommended to refer the Councillors to the Conduct Advisory Panel for a breach in compliance with County Council procedures.

**CORPORATE OR LEGAL INFORMATION:**

**Links to the Corporate Strategy**

**This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:**

It relates to the effective Governance of the County Council.

**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>Reference</u>
Hampshire County Council Audit Results Report	7771

## **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:**

The future approach for collecting declarations will need to consider any impact on equality objectives.

### **2. Impact on Crime and Disorder:**

2.1 The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decisions it makes on the prevention of crime. This report has no 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 proposals

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 proposals affecting adaptation to climate change.

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## HAMPSHIRE COUNTY COUNCIL

### Report

<b>Committee/Panel:</b>	Audit Committee
<b>Date:</b>	23 July 2020
<b>Title:</b>	Minutes of the Hampshire Pension Fund Panel and Board – 13 December 2019
<b>Report From:</b>	Director of Transformation and Governance

**Contact name:** Caroline Roser

**Tel:** 0370 779 5280

**Email:** caroline.rosier@hants.gov.uk

#### Purpose of this Report

1. The purpose of this report is to present the minutes from the meeting of the Hampshire Pension Fund Panel and Board which took place on 13 December 2020.
2. That the Audit Committee receives and notes the minutes as attached to this report.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no

**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

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) 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 protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are 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 in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

This report requests that the Audit Committee receive and note the minutes of the Hampshire Pension Fund Panel and therefore the recommended action will not impact on groups with protected characteristics in any way.

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AT A MEETING of the Hampshire Pension Fund Panel and Board of  
HAMPSHIRE COUNTY COUNCIL held at Mitchell Room, EII Podium,  
Winchester on Friday, 13th December, 2019

**PRESENT**

Chairman:

\* Councillor Mark Kemp-Gee

Vice-Chairman:

\* Councillor Tom Thacker

Elected members of the Administering Authority (Councillors):

\* C. Carter

\* A. Joy

\* A. Dowden

\* P. Latham

\* A. Gibson

\* B. Tennent

\* J. Glen

Employer Representatives (Co-opted members):

Councillor P. Taylor (District Councils - Rushmoor Borough Council)

Councillor S. Barnes-Andrews (Southampton City Council)

\* Mr D. Robbins (Churchers College)

Councillor C. Corkery (Portsmouth City Council substitute employer representative)

Scheme Member Representatives (Co-opted members):

Dr C. Allen (pensioners' representative)

\* Mr N. Wood (scheme members representative)

\* Mrs V. Arrowsmith (deferred members' representative)

\* Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:

\* C. Dobson

\*present

**218. APOLOGIES FOR ABSENCE**

Councillors Taylor, Barnes-Andrews, Corkery and Dr Allen sent their apologies.

**219. 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.

**220. CONFIRMATION OF MINUTES (NON-EXEMPT)**

The minutes of the Pension Fund Panel and Board held on 18 November 2019 were confirmed.

**221. DEPUTATIONS**

No deputations were received.

**222. CHAIRMAN'S ANNOUNCEMENTS**

The Chairman informed the Panel and Board that he had been elected Chairman of the ACCESS Joint Committee and he was congratulated by the rest of the committee.

**223. GOVERNANCE - INTERNAL AUDIT PROGRESS REPORT**

The Panel and Board received and noted a report from the Director of Corporate Resources (Item 6 in the Minute Book) on the progress of the delivery of Internal Audit's annual workplan. The Director reported that 80% of the internal audit work for the year was either complete or in progress. There were no completed internal audit reports that had concluded there were limited or no assurance with regard to the internal controls in place. The audit of 'Accounting for Pension Receipts' had been concluded and found that 'substantial' assurance can be placed in the controls of the process.

**224. ACCESS MINUTES - 9 SEPTEMBER 2019**

The Panel and Board received and noted the minutes of the ACCESS Joint Committee meeting (Item 7 in the Minute Book) held on 9 September 2019.

**225. GOVERNANCE - PENSIONS ADMINISTRATION UPDATE**

The Panel and Board received and noted a report from the Director of Corporate Resources (Item 8 in the Minute Book) on the administration of the Pension Fund. In the first six months of 2019/20 Pension Services have continued their exceptional performance and met the service standards for the majority of the casework following improvements after the initial dip in service standards following the launch of the new administration partnership with West Sussex Pension Fund. Annual benefit statements for almost 100% of active and deferred members were produced on time. Membership data was supplied ahead of schedule to the Fund Actuary in order that the 2019 valuation calculations could be completed, and initial whole of Fund results shared with employers at the Annual Employer Meeting in October.

A plan to increase the take up of the Member Portal, and to provide all employers with access to the Employer Hub has been put in place and will be rolled out over the next eighteen months, to promote online access as a key way of communicating with members and employers.

The Scheme Advisory Board (SAB) have issued further information about how the McCloud judgement will be applied in the LGPS. It is likely that the remedy will involve the extension of some form of underpin to members in scope who are not currently offered protection from the change to CARE in April 2014. However the SAB have confirmed that they do not expect to see any remedy in place before the end of the financial year 2020/21.

Following the Panel and Board's approval at its September 2019 meeting the votes of members of Equitable Life 'with profits' pensions were split according to their views of the transfer to Utmost Life and Pensions. The vast majority supported the transfer, which was in line with the overall membership and the process will now move to the High Court for formal approval of the transfer.

#### **226. PENSION FUND BUDGET**

The Panel and Board received a report from the Director of Corporate Resources (Item 9 in the Minute Book) proposing a budget for the management of the Pension Fund in 2020/21 and projected costs for 2021/22 and 2022/23. The budget was categorised according to CIPFA's definitions of investment management, administration and governance. The 2020/21 budget reflected the costs of delivering the Pension Fund's statutory responsibilities for the administration of the scheme and management of investments. The resources contained within the budget are sufficient to meet the Fund's regulatory requirements and deliver at the standards for administration that are reported to the Panel and Board. The new developments and initiatives that are included in the Fund's Business Plan are also included in the budget.

RESOLVED:

That the budget for the Pension Fund for 2020/21 was approved.

#### **227. GOVERNANCE - DRAFT FUNDING STRATEGY STATEMENT AND EMPLOYER POLICY**

The Panel and Board received a report from the Director of Corporate Resources (Item 10 in the Minute Book) providing an updated on the progress of the 2019 Actuarial Valuation and the related necessary changes to the Pension Fund's Funding Strategy Statement (FSS) and Employer Policy. Pension Services have provided data to the actuary for the 2019 Valuation ahead of schedule and draft individual employer contribution results were provided for a majority of employers by the end of November.

The draft Funding Strategy Statement and Employer Policy were shared with employers following the Annual Employers Meeting on 18 October for a 5 week consultation. Five employers responded to the consultation and no changes were required as a result of the comments received.

The Funding Strategy Statement has been updated to reflect the changes made as part of the 2019 valuation to the way in which employers were grouped for funding purposes, as well as to update the assumptions used by the Actuary in this valuation. As agreed by the Panel and Board at their meeting on 27 September 2019, the FSS has been updated to make reference to the approach that the Actuary will take to allow for the costs of McCloud prior to the final determination of the remedy. The draft FSS sets out the policy allowing employers to pre-pay contributions in return for a discount. Eligible employers will be contacted so that they can make an election to prepay either annually or triennially in advance, once the policy is approved.

The changes to the way in which employers are grouped for funding purposes at the 2019 valuation have also been reflected in the draft amended Employer Policy. The amended Employer Policy states that all employers will have their own contribution rate unless they participate in one of the three groups created as part of the 2019 valuation (Town and Parish Councils, Academies and Admission Bodies).

RESOLVED:

- (a) That the progress on the 2019 valuation was noted.
- (b) That the amended Funding Strategy Statement was approved for publication.
- (c) That the amended Employer Policy Statement was approved for publication.

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

The Panel and Board received a report from the Director of Corporate Resources (Item 11 in the Minute Book) to review the Pension Fund's Business Plan, Investment Strategy Statement, Governance Policy and Governance Compliance Statement, Administration Strategy Statement and Communication Policy Statement.

The Director reported that the Fund's Business Plan has been updated for the Pension Fund continuing to play an active part in investment pooling, responding to any relevant consultations and tendering contracts before they reach their current end dates.

The Pension Fund's Investment Strategy Statement included the Fund's latest Responsible Investment Policy.

The Fund's Governance Policy has been rewritten to address the emerging areas of focus from the Scheme Advisory Board's (SAB) 'Good Governance' review, which was produced with consultancy advice from Hymans Robertson. The output of the review is still being finalised and further changes may be required next year.

A minor change was made to the Administration Strategy Statement to the policy on Voluntary Scheme Pays (VSP), which is the method by which the Administering Authority can pay an Annual Allowance tax charge on behalf of a member. The change extends the VSP option to include employees who incur a tax charge of more than £1,000 in relation to a tapered Annual Allowance.

The Communication Policy Statement had a minor addition to clarify that the long-term aim is for the majority of communications with scheme members and employers to be routed through the online portal.

RESOLVED:

- (a) Progress on the Business Plan's actions were noted and the updated Business Plan was approved.
- (b) The updated Investment Strategy Statement was approved.
- (c) The updated Governance Policy and Governance Compliance Statements were approved.
- (d) The Administration Strategy Statement was approved.
- (e) The Communication Strategy Statement was approved.

229. **COMPETITION AND MARKETS AUTHORITY (CMA) ORDER - INVESTMENT CONSULTANCY**

The Panel and Board considered a report of the Director of Corporate Resources (item 12 in the Minute Book) covering requirements of the CMA for the Pension Fund to establish aims and objectives for its investment consultants, Hymans Robertson and MJ Hudson Allenbridge. Aims and objections have been drafted and shared with both Hymans Robertson and MJ Hudson Allenbridge who have confirmed that they are appropriate.

RESOLVED:

- (a) That the strategic objectives for investment consultants were approved with the additional inclusion that it is clarified that the Pension Fund's investment strategy includes its Responsible Investment policy.

230. **SCHEME ADVISORY BOARD GUIDANCE ON RESPONSIBLE INVESTMENT**

The Panel and Board considered a report of the Director of Corporate Resources (item 13 in the Minute Book) introducing the first of two parts of guidance on RI from the SAB. The aim of the first part is 'to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law'. The guidance has been published as draft for consultation (contained in Annex 1), which closes on 11 January 2020, although the SAB has not asked any consultation questions.

RESOLVED:

- (a) That authority is delegated to the Director of Corporate Resources in consultation with the Chairman of the Panel and Board to respond to the SAB's consultation.

**231. INVESTMENTS: PENSION FUND CASH MONITORING REPORT AND ANNUAL CASH INVESTMENT STRATEGY 2020/21**

The Panel and Board considered a report of the Director of Corporate Resources (item 14 in the Minute Book) on the Pension Fund's cash balances and the Annual Investment Strategy for those cash balances for 2020/21. The Annual Investment Strategy had been prepared taking into account advice from the County Council's treasury management advisers, Arlingclose. The Strategy contains the provision for the Pension Fund to temporarily invest cash received from employers on 1 April 2020 who have elected to pay their employers' pension contributions in advance.

RESOLVED:

- (a) That the Annual Investment Strategy for 2020/21 be approved.
- (b) That the Annual Investment Strategy be implemented from the date of this meeting for the remainder of 2019/20.
- (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.

**232. EXCLUSION OF THE 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 and 4 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.

**233. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING**

The exempt minutes of the Pension Fund Panel and Board held on 8 November 2019 were confirmed.

**234. INVESTMENT - CASH STRATEGY (EXEMPT APPENDIX)**

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 17 in the Minute Book) supporting the Pension Fund's Annual Cash Investment Strategy.

**235. INVESTMENTS: PENSION FUND'S CUSTODIAN PERFORMANCE REPORT**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 18 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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Chairman,

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