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NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Thursday, 7th March, 2024 at 2.00 pm
Place	Ashburton Hall - HCC
Enquiries to	members.services@hants.gov.uk

Carolyn Williamson FCPFA
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION
This meeting may be recorded and broadcast live on the County Council's website and available for repeat viewing, it may also be recorded and filmed by the press and public. Filming or recording is only permitted in the meeting room whilst the meeting is taking place so must stop when the meeting is either adjourned or closed. Filming is not permitted elsewhere in the building at any time. Please see the Filming Protocol available on 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 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 Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 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 14 DECEMBER 2023 (PUBLIC) (Pages 5 - 10)

To confirm the public 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 - 16)

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

7. **EXTERNAL AUDIT 2022/23 - VALUE FOR MONEY REPORT** (Pages 17 - 50)

To receive a report from the External Auditors presenting the interim Value for Money Report for the year ending 31 March 2023.

8. **EXTERNAL AUDIT PLAN 2023/24** (Pages 51 - 108)

To receive a report from the External Auditors presenting the outline external audit plan for Hampshire County Council for the year ending 31 March 2024.

9. **INTERNAL AUDIT PROGRESS REPORT** (Pages 109 - 130)

To receive a report from the Deputy Chief Executive and Director of Corporate Operations providing an overview of internal audit activity against the assurance work completed in accordance with the approved audit plan 2023-24 and an overview of the outstanding management actions.

10. **INTERNAL AUDIT CHARTER** (Pages 131 - 144)

To receive a report from the Deputy Chief Executive and Director of Corporate Operations presenting the Internal Audit Charter 2024 – 2025, in accordance with the requirements of the Public Sector Internal Audit Standards.

11. TREASURY MANAGEMENT STRATEGY STATEMENT 2024/25 TO 2026/27 (Pages 145 - 176)

To receive a report of the Deputy Chief Executive and Director of Corporate Operations presenting the Treasury Management Strategy Statement for 2024/25 to 2026/27.

12. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 29 SEPTEMBER 2023 (PUBLIC) (Pages 177 - 186)

To receive the public minutes of the Hampshire Pension Fund Panel and Board meeting held on 29 September 2023.

13. AUDIT COMMITTEE REVIEW (Pages 187 - 200)

To receive a report from the Deputy Chief Executive and Director of Corporate Operations advising the Audit Committee on the results of a review of the Audit Committee's working practices in the light of recent guidance issued by CIPFA and the commitment in the Annual Governance Statement 2022-2023 to review the Audit Committee's Terms of Reference.

14. 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 Paragraphs 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.

15. AUDIT COMMITTEE REVIEW - EXEMPT APPENDIX (Pages 201 - 282)

To receive an exempt appendix to the Audit Committee Review (Item 13)

16. MINUTES OF PREVIOUS MEETING HELD ON 14 DECEMBER 2023 (EXEMPT) (Pages 283 - 284)

To confirm the exempt minutes of the previous meeting.

17. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 29 SEPTEMBER 2023 (EXEMPT) (Pages 285 - 290)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 29 September 2023.

ABOUT THIS AGENDA:

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

ABOUT THIS MEETING:

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

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

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL
held at the Castle, Winchester on Thursday, 14th December, 2023

Chairman:
* Councillor Derek Mellor

* Councillor Tim Davies
* Councillor Ryan Brent
* Councillor Steven Broomfield
Councillor Juliet Henderson
* Councillor Dominic Hiscock
* Councillor Keith House
* Councillor Mark Kemp-Gee

Councillor Michael Thierry

134. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Juliet Henderson and Michael Thierry. The Chairman welcomed Councillor Tom Thacker who was in attendance as the Conservative deputy.

135. **DECLARATIONS OF INTEREST**

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

Councillors Tim Davies and Dominic Hiscock declared a personal interest as Members of the Pension Fund Panel and Board.

136. **MINUTES OF PREVIOUS MEETING HELD ON 27 SEPTEMBER 2023**

The minutes of the meeting held on 27 September 2023 were agreed as a correct record and signed by the Chairman.

137. **DEPUTATIONS**

No deputations were received by the Committee on this occasion.

138. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements.

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

The Committee considered a report of the Director of Universal Services, regarding the County Council's use of regulated investigatory powers.

It was heard that during the previous quarter there had been activity in relation to a communications data request, and that the application had consisted of 50 specific notices relating to an active rogue trading case. The case had involved multiple suspects and a significant number of consumers, both within Hampshire and regionally, who had fallen victim to fraud. The Committee were assured that the use of powers was both proportionate and necessary.

RESOLVED:

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

140. **EXTERNAL AUDIT: HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND REPORT 2021/22**

The Committee received the external auditors report for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2022.

In response to members questions it was heard that:

- The external auditors had not yet received the group audit instructions from the National Audit Office (NAO). These instructions set out the required level of materiality, and if the County Council exceeded this then some additional audit procedures may be required before the audit could be completed. Members heard it was anticipated that these instructions would be received within the coming months, and the auditors had no concerns at this stage, as they expected the Council's accounts to fall below the materiality limit for 2021/22.
- The overall fee for external audit for 2021/22 was slightly in excess of £95K and was based upon the scale fee set 7 years ago. In reflection of growing audit requirements Public Sector Audit Appointments (PSAA) had reset the baseline fees, and from 2023/24 audit fees would be increasing to £299K.
- Guidance from central government had not yet been published in relation to setting a backstop date for the 2022/23 accounts. Without formal guidance, the external auditors continued to work on the expectation that a backstop would be set for March 2024, and therefore had undertaken no work in relation to the audit for 2022/23, as it would not be possible to complete an audit before the backstop date. It was therefore expected that the auditors would issue a qualified opinion for 2022/23 and that this would be accompanied with text explaining that the qualified opinion had not resulted from the actions of Hampshire County Council, but from a national audit issue and central government direction. In the absence of a full audit, the external auditors would still need to provide value for money assurance, including the going concern forecast, and further that the

pension fund audit would continue, as it was not subject to any backstop arrangements. It was heard that the audit fee for 2022/23 would be minimalised, to reflect the reduced level of work being undertaken and that the County Council would see a substantial reduction to the base fee.
- In place of the 2022/23 audit, the auditors were focussing on the 2023/24 audit, with the expectation that this would be delivered on time.

RESOLVED:

That the Audit Committee receives and notes the Hampshire County Council and Hampshire Pension Fund Audit Reports for year ending 31 March 2022.

141. **EXTERNAL AUDIT - HAMPSHIRE PENSION FUND INDICATIVE AUDIT RESULTS REPORT 2022/23**

The Committee received the external auditors indicative results report for the Hampshire Pension Fund for the year ending 31 March 2023.

Members heard that the results were recorded as indicative, as the external auditors were unable to give a formal opinion on the Pension Fund until the County Council audit guidance, concerning the potential backstop was received from the Department for Levelling Up, Housing and Communities (DLUHC). It was further noted that there were a few ongoing actions to be completed before the audit could be finalised, relating to level 3 private investments with higher inherited risk and significant risk, and information was awaited from an external private equity firm.

There were no further no matters to be reported to the Committee. It was heard that a final report would be brought to the Committee when the audit was concluded.

RESOLVED:

That the Audit Committee receives and notes the Hampshire Pension Fund indicative audit results report for year ending 31 March 2023.

142. **TREASURY MANAGEMENT REPORT MID-YEAR REPORT 2023/24**

The Committee received a report from the Director of Corporate Operations providing an update on treasury management activity in the first half of 2023/24.

Members heard that all activity had been undertaken in compliance with the Treasury Management Strategy. It was noted that since 31 March 2023 net investments had reduced by £251m, due to the combination of the pre-payment of three years of pension fund contributions and the repayment of £20m of PWLB loans at maturity. No further borrowing had been taken during the period. Divestment from pooled equity and pooled multi-asset funds had resulted in a £3.9m capital gain, which was assigned to the investment risk reserve, which as a result increased to £10.15m.

In response to Members questions it was heard that:

- It was hoped that the £9.8m unrealised loss in pooled funds resulting from the fall in property values, would start to recover. When the statutory override expired, from 2025/26, any unrealised loss would be reflected in profit and loss account.
- Current figures suggested that additional borrowing may needed by 2027 to meet capital financing requirements.

RESOLVED:
That the Audit Committee note the review of treasury management activities in the first half of 2023/24.

143. **DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT 2024/25 - 2026/27**

The Committee received a report of the Director of Corporate Operations presenting the Treasury Management Strategy Statement for 2024/25 to 2026/27, which included the Annual Investment Strategy for 2024/25.

It was noted that the draft version of the Treasury Management strategy was brought for scrutiny by the Committee prior to final approval by Cabinet in February. The final version of the report would be brought back to Audit Committee at the next meeting in March. Members heard that the strategy had been drafted with advice from Arlingclose and that a key variation from the previous strategy was the reduction in the investment counterparty limit to £80m, from £90m.

RESOLVED:

That the Audit Committee notes the following recommendations that will be made to Cabinet:

- That the Treasury Management Strategy for 2024/25 (and the remainder of 2023/24) be approved
- That authority is delegated to the Director of Corporate Operations to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

144. **CODE OF CORPORATE GOVERNANCE**

The Committee received a report of the Director of People and Organisation outlining a review of the County Council's Code of Corporate Governance.

Members heard that CIPFA guidance set out high level principles for good governance and the Code of Governance evidenced the County's commitment to work to these principles, promoting transparency for the benefit of all.

It was noted that it had been some time since the Code of Corporate Governance was last brought before the Committee and, there were a number of proposed changes made to the Appendix to the Code.

It was heard that the recommendation to delegate authority to the Monitoring Officer would allow for any administrative changes to be made to the Appendix to the Code to reflect any updates made to the corporate systems, processes and documentation referenced within it. It was understood that any non-administrative changes to the Code would come back to the Committee for review. It was further anticipated that the Committee would undertake a regular bi-annual review of the Code going forward.

RESOLVED:

- That the Audit Committee consider and approve the revised Code of Corporate Governance as set out in Annex 1 to this Report.

- That the Audit Committee delegate authority to the Monitoring Officer to approve future amendments to the Appendix to the Code of Corporate Governance to reflect any updates made to the corporate systems, processes and documentation referenced within it.

145. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 28 JULY 2023 (PUBLIC)**

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held 28 July 2023.

146. **CORPORATE RISK MANAGEMENT REPORT**

The Committee received an update report from the Chief Executive and the Director of People and Organisation on the County Council's Corporate risk management framework.

Members heard that the County Council had a Risk Management Steering Group which reviewed progress against the risk management strategy and provided regular reports to the Corporate Management Team.

It was reported that there had been good progress over the course of the year in developing a more open and risk aware culture in the organisation.
In was noted that the adoption of new corporate risk management system had been a key improvement, which had enabled the organisation to gain a clearer understanding and assurance, across both directorates and the organisation as a whole, of how controls were being effectively managed.

RESOLVED:

That the Committee notes the risk profile of the organisation and the risk management arrangements in place across the County Council.

147. **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 Paragraph 3 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.

148. **CORPORATE RISK MANAGEMENT - EXEMPT APPENDIX**

The Committee received and noted an exempt appendix to the Corporate Risk Management Report.

149. **INTERNAL AUDIT 2023/24 - LIMITED ASSURANCE REPORTS UPDATE**

The Committee received a report from the Director of Corporate Operations and Deputy Chief Executive providing an update on progress with completing the agreed management actions for the one ‘No Assurance’ and the 16 ‘Limited Assurance’ internal audit reviews which were reported to the Audit Committee in September 2023, as part of the Internal Audit Annual report and Opinion 2022/23. (SUMMARY OF AN EXEMPT MINUTE)

150. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 28 JULY 2023 (EXEMPT)**

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 28 July 2023.

Chairman, 7 March 2024

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	7th March 2024
Title:	Information Compliance – Use of Regulated Investigatory Powers
Report From:	Patrick Blogg, Director, Universal Services

Contact name: Richard Strawson, Head of Trading Standards

Email: richard.strawson@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the data regarding the County Council's use of regulated investigatory powers.

Recommendation

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

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

2. **Equalities Impact Assessment:**

This report requests that the Audit Committee receive and note the data and therefore the recommended action will not impact on groups with protected characteristics in any way.

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Quarterly Reporting of Surveillance

Number of Authorisations by Quarter (1 April 2023 – 31 March 2024)

Direct Surveillance			
	Purpose of Surveillance		
2023-24 Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3	0	0	0
4			
Total -	**0**	**0**	**0**
Covert Human Intelligence Source (CHIS)			
	Purpose of Surveillance		
Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3	0	0	0
4			
Total -	**0**	**0**	**0**

Communications Data			
Quarter	Number of Applications	Number of Specific Notices	Offences related to:
1	0	0	
2	1	50	Rogue Trading
3	1	18	Rogue Trading
4			
Total -	**1**	**68**	

The decision to deploy any of the surveillance techniques defined within RIPA is dependent upon many considerations. Where there are other investigative tools available, which are both overt in nature and more appropriate to be used, they will be deployed instead of reverting to any of the surveillance techniques referenced within RIPA.

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	7 March 2024
Title:	External Audit: Hampshire County Council Value for Money report 2022/23
Report From:	Ernst and Young LLP (external auditors)

Contact name: Kevin Suter

Email: ksuter@uk.ey.com

Purpose of this Report

1. The purpose of this report is to present to the Audit Committee the external auditors interim Value for Money Report for the year ending 31 March 2023.

Recommendation

2. That the Audit Committee receives and notes the interim Hampshire County Council Value for Money Report for year ending 31 March 2023.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	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
Hampshire County Council provisional audit results report	https://democracy.hants.gov.uk/documents/s99339/HCC%20-%20Audit%20Results%20Report%202021-22.pdf

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 disproportionally 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

Value for Money report

Year ended 31 March 2023

February 2024

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07 February 2024

Dear Audit Committee Members

2022/23 Value for Money Report

We are pleased to attach our interim Value for Money report for Hampshire County Council. The report summarises the findings from our 2022/23 value for money work and to date in 2023/24. The report sets out the risks identified and the findings from our detailed assessment including a commentary on the three reporting criteria and a summary of the arrangements in place.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 7 March 2024.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.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 our engagement letter. 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.

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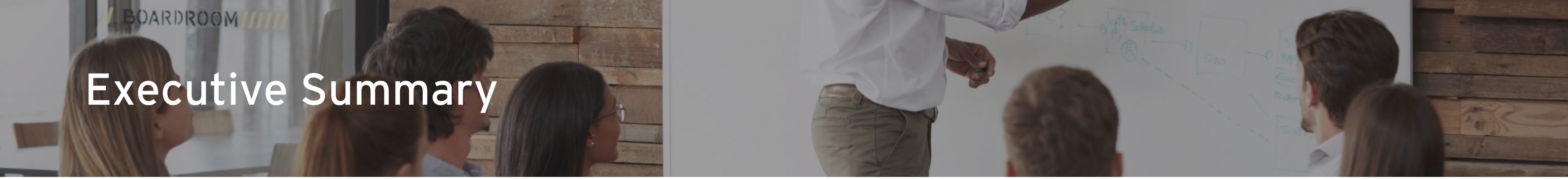
01 Executive Summary



Executive Summary

Purpose

The purpose of the report is to set out the Value for Money (VFM) work undertaken up to and including the 2022/23 financial year, and including information also covering the 2023/24 financial year to the date of drafting this report. The report aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor’s view as to whether they have been implemented satisfactorily.

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03).

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

- Risks of significant weakness and procedures planned to mitigate these
- Findings of our work against the three value for money reporting criteria and the sub-criteria
- Summary of arrangements in place over the period covered by this report.

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

Executive Summary (continued)

Risks of Significant Weakness

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

- our cumulative audit knowledge and experience;
- our review of Council committee reports;
- meetings with the Deputy Chief Executive and Director of Corporate Operations, and other finance officers; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

We identified no risks of significant weakness in the Council's arrangements as part of our risk assessment procedures.

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Executive Summary (continued)

Reporting

Our commentary for 2022/23 and to date for 2023/24 is set out over pages 9 to 14. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see table below) throughout 2022/23 and 2023/24 to date.

Whilst we have not identified any risks of significant weaknesses in arrangements, we include within the VFM commentary a recommendation we have agreed with the Council in relation to Financial Sustainability

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

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	**Actual significant weaknesses in arrangements identified?**
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No risk of significant weakness in arrangements identified in 2022/23 and 2023/24. Recommendation for continued action made on page 12	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No risk of significant weakness in arrangements identified in 2022/23 and 2023/24	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No risk of significant weakness in arrangements identified in 2022/23 and 2023/24	No significant weakness identified

Executive Summary (continued)

Independence

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

There are no relationships from 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

During the year to 31 March 2023 we have undertaken the following non-audit service, against which we have identified the potential threats to our independence and adopted the safeguards as shown below.

Description of service	Related independence threat	Safeguards adopted and reasons considered to be effective
Non-audit work in relation to the ISAE 3402 report on the integrated business centre (IBC)	Self-review / Self-interest	The work will be led and delivered by a separate SOC reporting team. No members of the audit team will work on this project.

As of the date of this report, future services have been contracted to provide the same non-audit service for the year ended 31 March 2024.

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02 Value for Money Commentary

Value for Money Commentary

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

2022/23 financial performance and position

Net service expenditure for the year was £3.5 million lower than planned against a cash limited budget of over £1.1 billion. Within that net underspend, Adults Health and Care and Children's Services both incurred net overspends against budget reflecting both permanent increases in care costs and growth in demand for services. Cost pressures in home to school transport and increasing numbers of children with special educational needs (SEN) were particular pressures in Children's Services. Performance in the delivery of savings was good, with £23.4 million or 83% of remaining targeted savings delivered under the Council's Transformation to 2021 Programme, and a further £20.8 million of savings delivered under the Savings Programme to 2023.

At the end of the 2022/23 financial year the total reserves held by the Council, including the general fund balance and individual schools' balances, but excluding the Dedicated Schools Grant (DSG) deficit, totalled £845 million. This reflects a £38 million net reduction in reserves from the prior year, with £34 million of that relating to the net draw from directorate reserves used for a number of purposes including cash flow funding for delayed savings, funding to offset inflation and demand pressures and investment in services. £25.9 million was also drawn from the Budget Bridging Reserve in line with the plan to support the budget ahead of the Savings Programme for 2023. The General Fund balance continued to be maintained at 2.5% of the Council's budget requirement, and stood at £25 million at the end of the year. The total cumulative deficit on the DSG reserve stood at £86 million at the end of 2022/23. The DSG deficit is currently ring fenced under statute until 2025/26. Should this ring fencing end that would generate a further financial pressure on the General Fund.

Arrangements during the financial year

The Council produces a three year MTFS on a rolling basis, which is updated annually. The strategy that the Council follows involves planning ahead of time, releasing resources in advance of need and using those resources to help fund transformational change. This strategy has served the Council well as it has delivered transformation programmes on time and on budget with minimum disruption.

A budget is prepared and approved annually, ahead of the financial year. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds. The budget will be approved by the County Council and proposed by the Cabinet on the advice of the Chief Financial Officer.

The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme.

Throughout the financial planning i.e. annual budget and MTFS processes, consideration of other plans such as capital and treasury management also take place. The Capital and Investment strategy also forms part of the annual budget setting process with the strategy being taken to Cabinet for approval at the same time as the revenue budget.

Value for Money Commentary

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

As part of medium term financial planning undertaken in the 2022/23 year the Council forecast it could be facing a recurring deficit of between £180 million and £300 million by 2025/26 without further action, and additional arrangements were implemented to seek to close the budget gap. Directors have been required to review each service area and consider differing service delivery options with increasing levels of impact and severity, as well as to come up with any cost cutting measures. There is a monthly financial resilience meeting of the Directors of Social Services to monitor ongoing pressures.

Management and Members have maintained an open dialogue with the Department of Levelling-Up, Housing and Communities as they work through their action plan, and are in active dialogue with Government regarding the longer-term issues facing the Council. Management have highlighted that changes to legislation that reduce service cost or allow the Council to charge for services is also an option. However management note that no legislative changes have been made and therefore the Council are focusing on internal processes and continuing to lobby the Government.

We continue to be satisfied that management has a detailed grasp of the financial challenges the Council faces, and have put in place the necessary arrangements and processes in response. Therefore, in our judgement we assessed the Council's arrangements to be appropriate and without significant weakness within the financial year assessed.

<u>**Commentary on the latest financial position**</u>

In the VFM narrative commentary set out in our 2021/22 Auditor's Annual Report, which was issued in November 2023, we included details of the Council's forecast financial position up to and including the Medium Term Financial Strategy Update and Savings Programme proposals presented to Cabinet in October 2023.

The purpose of that October 2023 update was to consider the overall financial strategy for dealing with the budget gap to 2025/26. The report also updated the current year (2023/24) position which showed significant pressures in school transport which could lead to an additional demand of around £18 million by 2025/26, and also identified emerging concerns in Adults' Services and the SEN service that will need to be closely monitored to determine whether they will impact on the medium term forecast to 2025/26. Review processes identified a total of £90.4 million savings across all directorates, of which £75.1 million are expected to be delivered by 2025/26, leaving an unmet budget gap of £56.9 million for 2025/26. This is currently assumed to have to be financed by reserves. As a change to previous policy, savings that are made earlier than planned will be used to support the budget bridging reserve rather than retained and reinvested by the relevant directorate. Reserves, over the three year period 23/24 to 25/26, are expected to be used at an average level of £58.9 million per year. This is not sustainable, which the Council recognises and reports.

Value for Money Commentary

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

Subsequent to the October 2023 update a further report was presented to Cabinet in December 2023 setting out a 2023/24 financial update and 2024/25 budget setting proposals. That report continued to note building pressure on the Adults, School Transport and SEN budgets in 2023/24. The 2023/24 impact of the transport and SEN pressures was still being assessed, however the increase in Adult Social Care clients was expected to add £10.5 million to the cost of service delivery in 2024/25. In addition, the Council reported it could face extra costs in relation to cyber security, other IT pressures and health and safety improvement work. The report also flagged the risk to delivery of some planned savings.

We note that the Revenue Budget for 2024/25 was published for the 6 February 2024 Cabinet meeting. This includes a recommendation for a 4.99% precept increase for a Council Tax Band D property, of which 2% is specific to Adult Social Care. It includes a draw on the Budget Bridging Reserve of £84.7 million. The Council's share of the national £600m additional funds for social care will reduce the annual deficit by approximately £10m

Actions including a further review for additional savings are continuing, as is an exercise to review the Council's legal minimum service level reported to the December 2023 Cabinet. The Council is also consulting, from 8 January 2024, on options for making savings in 13 service areas. This will inform the decisions on those services expected in the summer of 2024. This follows on from the earlier public consultation called 'Making the most of your money' which ran for six weeks from 12 June to the 23 July 2023.

We continue to conclude that reporting of the Council's budget position and forecasts continues to show that it has appropriate arrangements in place to identify risks to its financial sustainability. However, the solution to use reserves is only a temporary mitigation to the budget problems over the medium term strategy period, and is not sustainable. The pressures it is experiencing will require strong political engagement and officer management and discipline in implementing the savings it has identified and will also require further significant decisions regarding its services to be taken over the next budget cycles, to address the recurring budget gap and to be able to maintain a balanced budget. While we do not consider there to be a risk of, or actual, significant weaknesses in the Council's arrangements in this area we continue to raise the recommendation raised as part of our 2021/22 VFM work that was reported in our 2021/22 Auditor's Annual Report in November 2023.

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

Recommendation: The County Council should maintain the level of monitoring and review it currently has in place whilst the identified strains and pressures continue. Focus should be placed on implementing savings plans as soon as possible, and continually reviewing further options.

Value for Money Commentary (continued)

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

The Council has an effective corporate risk management framework embedded in its Corporate Governance Code which is in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. The Council manages risk through robust internal control and strong public financial management.

The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee

Quarterly reports are received from the internal auditors highlighting their work carried out including a breakdown of fraud investigations with any significant issues detailed in summary format. The internal audit plan incorporates both reactive and proactive fraud work along with fraud thematic reviews to identify and mitigate fraud risk.

Cases of alleged or proven incidents of fraud are investigated or tracked by internal audit and reported to the Audit Committee. Relevant trends are also reported to Audit Committee as would any incidents of fraud detected through internal audit checking procedures.

Financial regulations and procedures have been developed and are kept under review to ensure they provide an effective control framework. Compliance is monitored through appropriate review by service managers and finance staff together with independent review by internal audit.

The Annual Budget process, including the responsibilities and procedures in the annual budget process, is clearly set out within the Constitution of the Council as part of its Financial Regulations. The Financial Regulations state that the Chief Financial Officer is responsible for "preparing and controlling forward financial plans, budget strategies, the revenue budget, the capital strategy and capital programme" with Chief Officers being responsible for "controlling expenditure and income, monitoring performance and taking the necessary action to remain within budgets and cash limits".

Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure budgetary control, produce relevant accurate and timely management information, support its statutory financial reporting requirements and to ensure it is able to take corrective action where needed

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

Value for Money Commentary (continued)

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

The Council is currently operating under the "Serving Hampshire – Strategic Plan for 2021-2025".

The Plan has 4 strategic aims:

- Hampshire maintains strong and sustainable economic growth and prosperity
- People in Hampshire live safe, healthy and independent lives
- People in Hampshire enjoy a rich and diverse environment
- People in Hampshire enjoy being part of strong, inclusive communities

To report progress against Serving Hampshire, departments are asked to rate performance against a core set of performance metrics on a quarterly basis. Each year a performance report is produced which sets out the Council's performance throughout the year, both financial and non-financial. The report provides strategic oversight of the Council's performance in year against the "Serving Hampshire" and sets out ways to refresh the Plan and update the Council Performance Management Framework.

During 2022/23 the Council implemented a new Directorate structure, including creating a Hampshire 2050 directorate to focus on Hampshire as a place, and to deliver the wider Hampshire 2050 vision. Enabling functions, such as finance, strategic procurement, IT and HR, have been reviewed with a view to consolidating into the corporate centre and Corporate Operations or People and Organisation Directorates as appropriate, aiming to reduce duplication and create efficiencies and consistency in their relevant activities.

There are clear processes to govern Procurement and Contracts which are set out as part of Standing Orders in the Council's constitution. This includes the procedures and statutory requirements in terms of the procurement of services. The Council has also developed a Procurement Strategy which sets the framework in which Hampshire County Council will work to ensure that procurement delivers value for money across all services and directly contributes to the achievement of strategic goals.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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10 Appendices

Appendix A - Summary of arrangements

Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	Net service expenditure for the year was £3.5 million lower than planned against a cash limited budget of over £1.1 billion. Within that net underspend Adult's Health and Care and Children's Services both incurred net overspends against budget reflecting both permanent increases in care costs and growth in demand for services. Cost pressures in home to school transport and increasing numbers of children with special educational needs (SEN) were particular pressures in Children's Services. Performance in the delivery of savings was good with £23.4 million or 83% of remaining targeted savings delivered under the Council's Transformation to 2021 Programme, and a further £20.8 million of savings delivered under the Savings Programme to 2023. At the end of the 2022/23 financial year the total reserves held by the Council, including the general fund balance and individual schools' balances, but excluding the Dedicated Schools Grant (DSG) deficit, totalled £845 million. This reflects a £38 million net reduction in reserves from the prior year, with £34 million of that relating to the net draw from directorate reserves used for a number of purposes including cash flow funding for delayed savings, funding to offset inflation and demand pressures and investment in services. £25.9 million was also drawn from the Budget Bridging Reserve in line with the plan to support the budget ahead of the Savings Programme for 2023. The General Fund balance continued to be maintained at 2.5% of the Council's budget requirement, and stood at £25 million at the end of the year. <u>Medium Term Financial Strategy (MTFS):</u> The Council produces a three year MTFS on a rolling basis, which is updated annually. The strategy that the Council follows involves planning ahead of time, releasing resources in advance of need and using those resources to help fund transformational change. This strategy has served the Council well as it has delivered transformation programmes on time and on budget minimum disruption. The MTFS consists of a Reserves and Savings Strategy, which is summarised below: ‣ Deliberate policy to make savings ahead of need to generate surplus funds ‣ Using those reserves to fund the next phase of changes to release further savings and increase capital investment ‣ Two year programme of savings to give the time and capacity to implement effectively ‣ Straight line approach to allocating savings and corporate funding made available to fund spending pressures ‣ Significant use of the Grant Equalisation Reserve to fund deficits in intervening years ‣ Using other corporate reserves to fund voluntary redundancy programmes and corporate invest to save programmes

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Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (cont'd)	In addition to the above, the Council focus on the commercialisation of Local Government as part of the MTFS. A summary of over-arching objectives on this is shown below: ‣ Charging users for the direct provision of services. ‣ Investing money or using assets to generate a return. ‣ Expanding traded services to other organisations. ‣ Developing joint ventures that yield additional income or generate a return. <u>Annual Budget Setting Process:</u> A budget is prepared and approved annually, ahead of the financial year. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds. The budget will be approved by the County Council and proposed by the Cabinet on the advice of the Chief Financial Officer. The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme. These guidelines will take into account: ‣ legal requirements; ‣ the medium-term planning prospects; ‣ the corporate strategy; ‣ available resources; ‣ spending pressures; and ‣ any other relevant plans. The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis. The County Council may amend the budget and capital programme or ask the Cabinet to reconsider it before approving it.

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Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2023/24 and to date in 2023/24

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Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (continued)	Saving targets and other headline issues are agreed as part of the MTFS as noted above. The Council uses this information to devise and implement savings strategies. These strategies had previously been through their "Transformation To" plans. These "Transformation To" plans have been replaced by "Saving Programmes" plans. Through this process the Council sets out clear savings strategies which it needs to implement to remain sustainable. Management note that each successive savings programme is becoming more difficult to deliver as the potential to achieve further permanent cost reductions through early intervention and demand management and prevention approaches is reduced. In addition, the Council have implemented a "Working towards Economic Recovery" initiative which sets out the current economic challenges and the Council's response to them.
How the body plans to bridge its funding gaps and identifies achievable savings	The Council has a Medium-Term Financial Forecast (MTFF) which includes a 4-year forecast of planned savings. In the budget setting for 2022/23 and beyond, the Council acknowledged that extensive work will be undertaken to identify savings and mitigations to address forecast budget gaps.
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The Council's saving plans and initiatives focus around its four strategic aims, which bring together a number of priorities forming an overarching framework for services: ▸ Hampshire maintains strong and sustainable economic growth and prosperity – The first strategic aim relates to Hampshire's future economic growth and prosperity. ▸ People in Hampshire live safe, healthy and independent lives – The second strategic aim is about supporting people to live safe, healthy and independent lives by focusing the County Council's resources where need is greatest, and where they can make the biggest difference. ▸ People in Hampshire enjoy a rich and diverse environment – The third strategic aim balances the first by ensuring that Hampshire's economic success does not come at the expense of the county's environment and heritage. ▸ People in Hampshire enjoy strong, inclusive communities – The fourth strategic aim is about recognising the resources, skills and strengths that exist in local communities and that, when utilised, can help reduce the demand and dependency on County Council services."

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2023/24 and to date in 2023/24

Reporting Sub-Criteria	**Findings**
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities (cont'd)	The Council recognises that its ability to continue to deliver front line services will depend on its capacity to generate new funding streams, streamline the way that residents access services and support and encourage self-sufficiency, whilst protecting the most vulnerable. Their focus is on targeting resources at the most vulnerable people while becoming more efficient in the delivery of its services. The Council has also implemented a strategic plan which is intended to guide decision making to ensure that money is targeted where it is needed most and where it can make the greatest difference. As noted above, the Council reviews its budgetary position annually and produces a rolling three year plan, known as the MTFS. This enables the entity to consider the financial climate at both the local and national level together with available resources and budgetary pressures in order to arrive at a financial strategy. Throughout these processes, each service line is considered individually in order to ascertain whether savings can be made in each of these areas and the potential impact these savings may have. This enables the Council to ensure consistent delivery of services throughout the County and enables them to monitor progress and risks relating to each service area.
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	Throughout the financial planning i.e. annual budget and MTFS processes, consideration of other plans such as capital and treasury management also take place. The Capital and Investment strategy also forms part of the annual budget setting process with the strategy being taken to Cabinet for approval at the same time as the revenue budget. The Capital and Investment Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. This strategy covers:

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2023/24 and to date in 2023/24

Reporting Sub-Criteria	**Findings**
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system (cont'd)	▸ Governance arrangements for capital investment. ▸ Capital expenditure forecasts and financing. ▸ Prudential indicators relating to financial sustainability. ▸ Minimum Revenue Provision for the repayment of debt. ▸ Treasury Management definition and governance arrangements. ▸ Investments for service purposes, linked to the County Council's Commercial Strategy. ▸ Knowledge and skills. ▸ CFO's conclusion on the affordability and risk associated with the Capital and Investment Strategy. ▸ Links to the statutory guidance and other information All of the Council's financial strategies and planning interlink and are presented in a way that informs clear and effective decision making.
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	Please see commentary above about the annual budget setting process, MTFS and saving initiatives. Throughout the preparation of each of these, risks are taken into consideration in order to determine how they impact certain areas and what the financial implications of these risks might be. The Council has an effective corporate risk management framework in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. This includes both financial and non-financial risks. The elements of the Council's risk management's framework are outlined on its website. The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2023/24 and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans (cont'd)	<u>Budget Monitoring and Control:</u> The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis. It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Chief Financial Officer. They should report to the relevant Executive Member on variations and take any action necessary to avoid exceeding their budgets and alert the Chief Financial Officer to any problems.

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Appendix A - Summary of arrangements

Governance

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The Council has an effective corporate risk management framework embedded in its Corporate Governance Code which is in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. The Council manages risk through "robust internal control and strong public financial management". The elements of the Council's risk management's framework are outlined below:
	▸ Ensure that responsibilities for managing individual risks are clearly allocated
	▸ Align the risk management strategy and policies on internal control with achieving objectives
	▸ Ensure an audit committee which is independent of the executive and accountable to the County Council:
	    ▸ provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment; and
	    ▸ that its recommendations are listened to and acted upon.
	The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee. Quarterly reports are received from the internal auditors highlighting their work carried out including a breakdown of fraud investigations with any significant issues detailed in summary format. The internal audit plan incorporates both reactive and proactive fraud work along with fraud thematic reviews to identify and mitigate fraud risk.
	Cases of alleged or proven incidents of fraud are investigated or tracked by internal audit and reported to the Audit Committee. Relevant trends are also reported to Audit Committee as would any incidents of fraud detected through internal audit checking procedures.
	The Anti-Fraud and Corruption Strategy and related policies (including the Bribery Act Policy) are regularly reviewed and have been approved by the Audit Committee. The County Council fully participate in the National Fraud Initiative with results notified to the Audit Committee through the Chief Internal Auditors Annual Report and Opinion. In accordance with the Local Government Transparency Code 2014 all required fraud indicators are presented quarterly to the Audit Committee (as a public document) as part of the internal audit progress report.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	**Findings**
How the body approaches and carries out its annual budget setting process	The Annual Budget process including the responsibilities and procedures in the annual budget process is set out within the Constitution of the Council within Part 3, Chapter 5 – Financial Regulations. The Financial Regulations state that the Chief Financial Officer is responsible for "preparing and controlling forward financial plans, budget strategies, the revenue budget, the capital strategy and capital programme" with chief officers being responsible for "controlling expenditure and income, monitoring performance and taking the necessary action to remain within budgets and cash limits". <ins>Budget Preparation:</ins> The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme. These guidelines will take into account: ‣ legal requirements; ‣ the medium term planning prospects; ‣ the corporate strategy; ‣ available resources; ‣ spending pressures; and ‣ the community plan and other relevant plans. The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis and a forward financial forecast is prepared in line with Government Funding notifications for consideration by the Cabinet, before submission to the County Council. The County Council may amend the budget and capital programme or ask the Cabinet to reconsider it before approving it. It is the responsibility of chief officers to ensure that revenue and capital budget estimates reflecting agreed service plans are prepared in consultation with the Chief Financial Officer and Executive Member and submitted to the Cabinet and that these estimates are prepared in line with the budget guidance issued by the Cabinet.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	**Findings**
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed	Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed, this is documented within the Council's Financial Regulations and is set out further below. <u>Budget Monitoring and Control:</u> The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis. It is the responsibility of chief officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Chief Financial Officer. They should report to the relevant executive member on variations and take any action necessary to avoid exceeding their budgets and alert the Chief Financial Officer to any problems. Any new proposal containing significant financial implications must take note of the Chief Financial Officer's advice as well as that of the relevant Chief Officer and executive member.
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	The Council has a number of arrangements in place to ensure that appropriate decisions are made. Council decisions may be made either at Full Council meetings of all members, at committees of Council, at a meeting of all executive members i.e. 'Cabinet' or by individual executive members at 'decision days'. Decisions made by Cabinet or at decision days may be held to account by Select Committees (Overview and Scrutiny). Advisory panels and committees support and inform the decision making process. <u>County Council:</u> The Full Council is responsible for specified major decisions, such as setting the budget, and debates topical issues. It also receives reports from the Executive, and members are able to question the Executive on their areas of business.

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Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	**Findings**
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee (cont'd)	<u>Decision making:</u> The Council operates a Leader with Cabinet structure. Hampshire's Cabinet is made up of the Leader and executive members who each have a portfolio of responsibilities. The Cabinet make decisions together on strategic issues and individual executive members can take decisions on issues relating directly to their portfolio areas. <u>Select Committees:</u> The Select Committees (Overview and Scrutiny) hold the executive members to account on the decisions they make both collectively as Cabinet and individually. They can assist the Cabinet and executive members to make effective decisions by examining issues beforehand and making recommendations – this is called 'pre-scrutiny'. The Select Committees can also challenge decisions before they are implemented, review decisions after they have been implemented to see if they achieved what was intended, and suggest new policy areas or review the effectiveness of existing policies. <u>Audit Committee:</u> The purpose of the audit committee is to monitor, review and report on the governance arrangements of the County Council. The committee meets quarterly and the regulatory framework that the Audit Committee follow is shown below: • To monitor the roles, processes and behaviour that affect the way that governance is exercised within the County Council and in particular the adoption, review and amendment of the Corporate Governance Framework for the County Council. • To review and consider the reports from the Chief Finance Officer on the treasury management function, including the treasury management strategy, half-yearly report and annual report.

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Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee (cont'd)	▸ To consider the effect of the County Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, seeking assurances as necessary that action is being taken on risk-related areas identified by auditors and inspectors. ▸ To receive and form a view on internal assurances of governance practice and to be satisfied that the County Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it. ▸ To consider the County Council's compliance with its own and other published standards and controls. ▸ To make recommendations to the County Council for the making or amending of financial regulations, standing orders related to contracts or regulations related to the conduct of the County Council's business. The Audit Committee is supported by the Internal Audit Function (Southern Internal Audit Partnership). Quarterly reports are received from the internal auditors highlighting work carried, these reports are presented at Audit Committee where the results and procedures are discussed amongst those charged with governance. <u>Monitoring Officer:</u> The Council also has a Monitoring Officer in place. The function and role of the Monitoring Officer is set out in the Council's constitution. The functions of the Monitoring Officer include: ▸ Maintaining the constitution. ▸ Ensuring lawful and fair decision making ▸ Proper Officer for Access to Information – i.e. ensuring that records of decisions, together with the reasons for those decisions and relevant officer reports and background papers, are made publicly available as soon as possible. ▸ Checking whether executive decisions are within the budget and policy framework. ▸ Supporting the Audit Committee – i.e. giving guidance to the Audit Committee on matters appertaining to the governance of the County Council's affairs.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)	To ensure effective leadership throughout the County Council, members and officers work together to deliver agreed plans with defined functions and roles. These roles and responsibilities are set out in the Constitution including those for the Executive, Committees, Full Council and chief officers and the rules under which they operate. In particular, it looks at how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Many of these processes are required by statute and regulations by Governmental and other bodies (e.g. CIPFA) while the County Council has determined others locally. The Head of Governance (Monitoring Officer) provides advice on the interpretation and application of the Constitution. The Council has a sound management philosophy, demonstrates clarity of purpose and focus, with emphasis on performance and risk management. Our experience and knowledge of senior management is that they act with integrity, have good standards of behaviour and performance and lead by example. Both management and those charged with governance maintain an ethical stance and respond to instances of non-compliance with remedial action. There is an ethos of compliance with laws and regulations. The County Council has adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers. These include codes of conduct for both officers and members and cover conflicts of interest and gifts and hospitality and appropriate policies for partnership working. These are communicated as part of the induction process. All staff and members are provided with a copy of the respective codes of conduct when joining the Council and are required to read and comply with them.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for the improving economy, efficiency and effectiveness criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement; and How the body evaluates the services it provides to assess performance and identify areas for improvement	The Council is currently operating under the "Serving Hampshire – Strategic Plan for 2021-2025". The Plan has 4 strategic aims: ▸ Hampshire maintains strong and sustainable economic growth and prosperity ▸ People in Hampshire live safe, healthy and independent lives ▸ People in Hampshire enjoy a rich and diverse environment ▸ People in Hampshire enjoy being part of strong, inclusive communities Each year the Council produces a performance report which details on the County Council's performance throughout the year, both financial and non-financial. This report provides strategic oversight of the Council's performance in year against the "Serving Hampshire" and sets out ways to refresh the Plan and update the Council Performance Management Framework. To report progress against Serving Hampshire, departments are asked to rate performance against a core set of performance metrics on a quarterly basis. For each measure, a risk-based 'red, amber, green' rating is applied, informed by the most recent data and management information. Departments also provide an overview of key achievements and detail any risks/issues and budget pressures that may impact performance against agreed priorities. Within this detail, departments are asked to provide a description of the mitigating actions that are in place where the risk rating exceeds the desired threshold and gives an opportunity to flag if wider support is required. The Insight and Engagement team is responsible for data collation to support the monitoring process, but any mitigating actions are undertaken by departments themselves. During the year a Directorate and leadership review was implemented. This crated a new Hampshire 2050 Directorate to focus on Hampshire as a Place. A Univeral Services directorate is also created, or par with Childrens and Adults for public facing directorates. To support the organisation the Corporate Operations and People and Organisation Directorates contain the enabling functions to support the place shaping and public facing directorates, with those enabling services to be consolidated for efficiency and consistency across the County Council.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for the improving economy, efficiency and effectiveness criteria covering the 2022/23 year and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	The Council has a number of collaborative working arrangements. These include pooled budget arrangements with NHS bodies and joint working agreements with Hampshire Constabulary, Hampshire Fire and Rescue Service, Oxfordshire County Council, Westminster City Council, London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea. These involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity. <u>Integrated Business Centre</u> The Integrated Business Centre (IBC) is hosted by Hampshire County Council and was launched in 2014/15 for the provision of shared financial and HR services. The IBC has since extended it's services to Oxfordshire County Council, London Borough of Hammersmith and Fulham, City of Westminster Council and Royal Borough of Kensington and Chelsea. Performance is formally reviewed on a quarterly basis, and this includes a range of Performance Measures, overlaid by comprehensive service performance reports, and agreed actions to drive continued collective performance improvement. The IBC provides an annual report under the International Standard on Assurance Engagements 3402, Assurance Reports on Controls at a Service Organization (ISAE3402). This report is a 'type 2' report, which documents the controls and tests how they have been implemented over the year. This allows HCC to monitor the control environment and follow up on any control weaknesses noted, and provide the appropriate level of assurance to the users of the shared service.
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	Within the Constitution of the Council in Part 3, Chapter 6 it sets out the Standing Orders on Procurement and Contracts. This includes the procedures and statutory requirements in terms of the procurement of services. The Council has also developed a Procurement Strategy which sets the framework in which Hampshire County Council will work to ensure that procurement delivers value for money across all services and directly contributes to the achievement of their strategic goals.

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	7 March 2024
Title:	External Audit Plan 2023/34 – Hampshire County Council
Report From:	Ernst and Young LLP (external auditors)

Contact name: Kevin Suter

Email: ksuter@uk.ey.com

Purpose of this Report

1. The purpose of this report is to present to the Audit Committee the outline external audit plan for Hampshire County Council for the year ending 31 March 2024.

Recommendation

2. That the Audit Committee receives and notes the interim Hampshire County Council outline external audit plan for the year ending 31 March 2024.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	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
Hampshire County Council provisional audit results report	https://democracy.hants.gov.uk/documents/s99339/HCC%20-%20Audit%20Results%20Report%202021-22.pdf

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 disproportionally 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
Outline audit planning report

Year ended 31 March 2024

February 2024

Building a better working world

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

23 February 2024

Dear Audit Committee Members

Outline audit planning report

Attached is our outline audit planning report for the forthcoming meeting of the Audit Committee. The purpose of this report is provide the Audit Committee of Hampshire County Council (the Council) with a basis to review our proposed audit approach and scope for the 2023/24 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for the Council. We have aligned our audit approach and scope with these. The report also considers the likely impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The joint statement on the update to proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play to addressing the audit backlog.

(continued)

The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timelyy and efficient audit. Where this is not done it will impact the level of resource needed to discharge our responsibilities. We will consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the audit committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

We draw Audit Committee members and officers attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix A).

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 07 March 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

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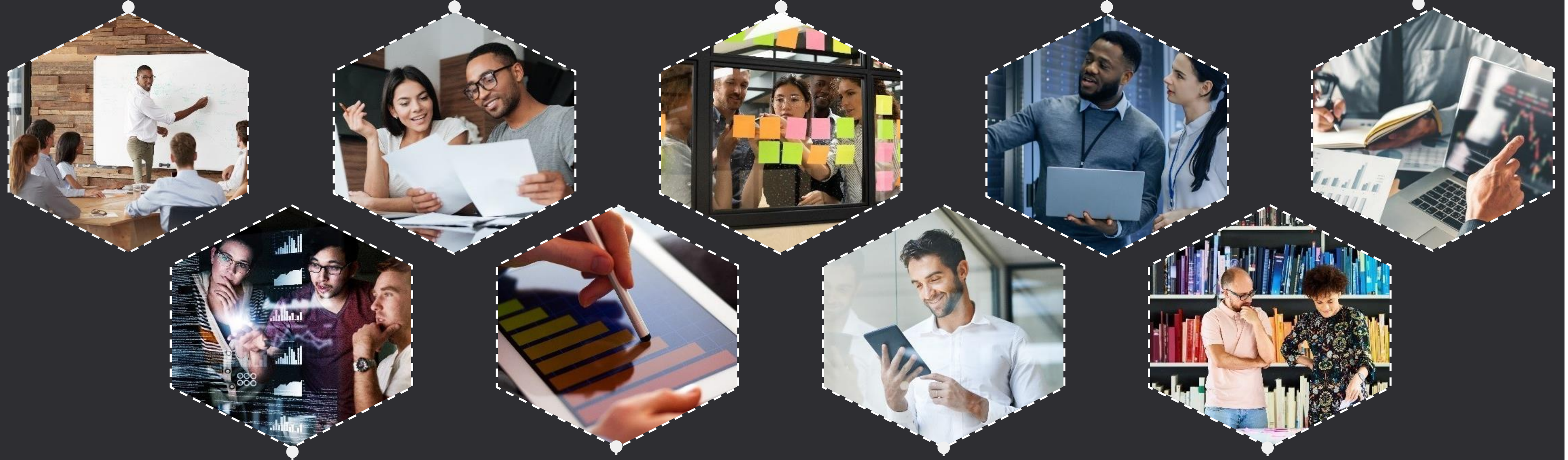
Contents



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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Hampshire County Council. 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.

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01 Overview of our 2023/24 audit strategy

Overview of our 2023/24 audit strategy

Context for the 2023/24 audit – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited accounts by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- DLUHC has launched consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic accounts and for the financial years 2023/24 to 2027/28.
- The National Audit Office (NAO) has launched consultation on amending the Code of Audit Practice to :
    - Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
    - Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.
- The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to issue a consultation on temporary changes to the accounting code for preparation of the accounts. The proposed temporary changes to the financial reporting framework have an impact on both how the accounts are prepared and our audit procedures necessary to gain assurance.

As a result of the system wide implementation of backstop dates it is likely we will disclaim the opinion on the Council's prior year 2022/23 audit. Our proposed disclaimer of the Council's 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase.

The changes proposed by the consultations therefore have a significant effect on both the scope of the 2023/24 audit and our assessment of risk. We will, therefore, continue to need provide updates to the Audit Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer. We have highlighted those areas where we consider it most likely that the proposed measures will impact our audit approach and scope as part of this Audit Planning Report.

Overview of our 2023/24 audit strategy

Responsibilities of Council/Authority management and those charged with governance

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Council's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Council resources are readily available to support the audit process, within agreed deadlines. The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done we will:

- Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- Consider the use of other statutory reporting powers to draw attention to weaknesses in Council financial reporting arrangements where we consider it necessary to do so.
- Seek a fee variation for the cost of additional resources needed to discharge our responsibilities. We have set out this and other factors that will lead to a fee variation at Appendix A of this report together with paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements.

It will also impact the level of audit resource available to complete the audit work in advance of any applicable backstop dates.

Overview of our 2023/24 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 2021/22 audit	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	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. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Data migration to new social care Information systems	Significant risk	New risk	The Council has introduced new separate adult and children's social care information systems during 2023/24. These systems contain social care client data that form the basis of material expenditure and income in the Council's Comprehensive Income and Expenditure Statement and related receivables and payables in its Balance Sheet. We have assessed the risk is most likely to occur through the inaccurate or incomplete migration of client data between the old and new systems resulting in materially incorrect entries in the financial statements.
Pension Liability Valuation	Inherent risk	No change in risk or focus	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. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Property, Plant & Equipment (PPE) and Investment Property (IP) Valuation	Inherent risk	No change in risk or focus	The valuation of land and buildings included in the financial statements is complex and often includes a number of assumptions and judgements. Enhanced procedures are required to challenge and evaluate key inputs and assumptions.

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Overview of our 2023/24 audit strategy

Council Materiality

Planning materiality

£52m

Materiality has been set at £52m, which represents 1.8% of 2022/23 gross expenditure on provision of services.

Performance materiality

£39m

Performance materiality has been set at £39m, which represents 75% of materiality.

Audit differences

£2.6m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement , collection fund, and Council's pension fund financial statements) greater than £2.6m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

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The outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the Council's 2022/23 financial statements and any guidance subsequently issued may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

Overview of our 2023/24 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 3.

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

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

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

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

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

Taking the above into account, and as articulated in this Outline audit planning report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. 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". Therefore to the extent any of these or any other risks are relevant in the context of the Council's audit, we set those within this Audit planning report and we will continue to discuss these with management as to the impact on the scale fee.

Overview of our 2023/24 audit strategy

Audit scope (Cont.)

Effects of climate-related matters on financial statements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to the Council. It is, nevertheless, important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Audit scope and approach

We intend to undertake both substantive procedures and rely on controls approach to gain assurance. The controls-reliance approach covers the accounts receivable, accounts payable, payroll and cash and bank processes being serviced by the Integrated Business Centre (IBC). The Council has engaged EY Specialists in Financial Audit and IT (FAIT) to test the effectiveness and efficiency of these controls within the service organization. As at the date of this report, this is ongoing and the EY Specialist team has yet to issue the results of their testing. We will update the Audit Committee any identified material exceptions that need to be raised to the attention of Council as part of our reporting of audit findings. There have no changes in this approach from 2021/22.

The Government proposals to re-establish the local authority framework on a more sustainable basis and outcome of the related consultations are likely to have an impact on scope of the audit. We draw your attention to the audit scope section 5 of this audit plan where we set out our current understanding of the likely impact of the proposals on our scope and approach for your 2023/24 audit. We will continue to provide updates of the impact of these changes to the Audit Committee where necessary to do so.

Overview of our 2024 audit strategy

Value for Money

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

Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to prepare a commentary under three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council's arrangements against three reporting criteria:

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

The commentary on the Council's value for money arrangements will be included in the Auditor's Annual Report.

Timeline

A timetable has been agreed with management to complete the audit by 30 September 2024. In Section 07 we include a provisional timeline for the audit. All parties need to work together to ensure this timeline is adhered to.

Key Audit Partner and senior audit team

Engagement Partner (Kevin Suter)

The Engagement Partner has overall responsibility for:

- The audit and its performance
- The auditor's report that is issued on behalf of EY
- The overall quality of the audit

Senior Manager (Sanchita Rai)

The Senior Manager has responsibility for management of the audit ensuring that it is adequately resourced to meet both its time and budget constraints.

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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.

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What will we do?

We will:

- Identify fraud risks during the planning stages.
- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Discuss with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions).
- Consider the effectiveness of management's controls designed to address the risk of fraud.
- Determine an appropriate strategy to address those identified risks of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Undertake procedures to identify significant unusual transactions.
- Consider whether management bias was present in the key accounting estimates and judgments in the financial statements.

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

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.

Inappropriate capitalisation of revenue expenditure*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

► Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.

► Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so.

► Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE) / Investment Property (IP) additions and/or REFCUS in the financial statements.

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.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

What will we do?

- Test Property, Plant and Equipment (PPE) / Investment Property (IP) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- Assess whether the capitalised spend clearly enhances or extends the useful like of asset rather than simply repairing or maintaining the asset on which it is incurred.
- Consider whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we do not expect there to be material REFCUS in the year.
- Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

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.

Data migration to new social care information systems

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Financial statement impact

Misstatements that occur in relation to Data Migration of Social Care Information would affect the debtors, creditors, Adults' Health & Care, and Children's Services Non-Schools accounts. These accounts had the following balances in the latest management accounts/2022-23 financial statements]:

Income Statement Account:

- Adults' Health & Care £470m
- Children's Services Non-schools £302m

Balance Sheet Account:

- Short-term financial debtors £101m
- Short-term financial creditors £162m

What is the risk?

The Council has introduced new separate adult and children's social care information systems during 2023/24. These systems contain social care client data that form the basis of material expenditure and income in the Council's Comprehensive Income and Expenditure Statement and related receivables and payables in its Balance Sheet.

In previous years, the Council has used SWIFT as the joint system to store information of individuals and their social care packages. New systems have been implemented in 2023/24 to separate adults and children's services client data as follows:

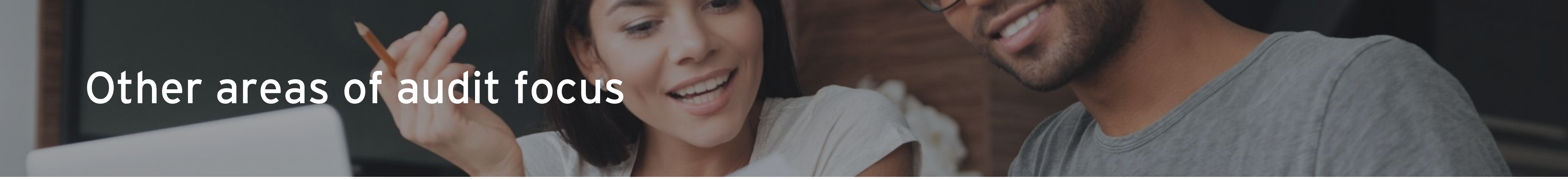
- Care Director - Adult Social Care
- Mosaic – Children's Services

We have assessed the risk is most likely to occur through the inaccurate or incomplete migration of client data between the old and new systems resulting in materially incorrect entries in the financial statements.

What will we do?

We will:

- Gain an understanding of the process and walkthrough on the old and new system to better understand the data migration process.
- Obtain and review reconciliations of the data transferred from old to new systems to obtain assurances as to completeness.
- Sample test the data to gain assurance that is has been completely and accurately migrated.
- Undertake ISA (UK) 315 (Revised) risk assessment procedures for the new systems that have been implemented.
- Obtain and consider the latest Internal Audit Report review of the data migration process to identify if there were exceptions that we should consider in our approach.
- Evidence that the Council has undertaken procedures to ensure compliance with relevant laws and regulations, for instance complying with data security and retention requirements
- Undertake substantive testing of social care Income and Expenditure using a lower threshold to reflect the increased risk of error.



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, and the key judgements and estimates?

Pension Liability Valuation (inherent risk)

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 the Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2023 this totalled £224 million.

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

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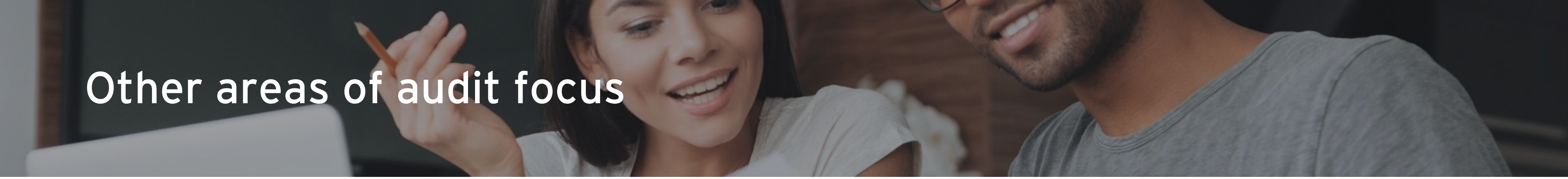
Our response: Key areas of challenge and professional judgement

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.
- Assess the work of the pension fund actuary, Hymans Robertson, including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model.
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What else will we do?

We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.



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, and the key judgements and estimates?

Property, Plant & Equipment (PPE) and Investment Property (IP) Valuation (inherent risk)

The fair value of Property, Plant and Equipment (PPE) land and buildings and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

We note that not all of the Council's PPE is subject to revaluation with vehicles, plant, furniture & equipment, infrastructure assets and assets under construction all valued at cost under the CIPFA Code of Practice on Local Authority Accounting The Council's IP and surplus property is subject to annual revaluation, while its operational PPE is valued on a rolling programme over 5 years. The valuation basis is different depending on the type of property being revalued, with assets carried at Depreciated Replacement Cost, Existing Use Value or Fair Value. Each valuation basis is reliant on different inputs, estimation processes and assumptions.

Our response: Key areas of challenge and professional judgement

We will:

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

What else will we do?

We will continue to consider the need to use EY Real Estates, our internal specialists on asset valuations, to support our work in this area. Based on procedures performed at the planning stage we do not expect to commission EY Real Estates.

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03 Value for Money risks

Value for Money

Council responsibilities for value for money

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

As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor Responsibilities

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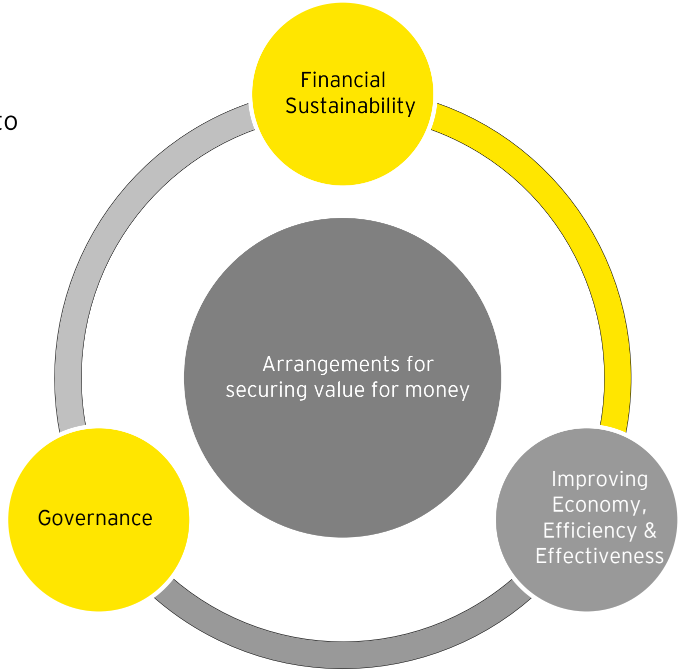
Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement;
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or

Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the a commentary on your value for money arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This may include matters that we do not consider to be significant weaknesses in your arrangements but should be brought to your attention. This will include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2023/24 VFM planning

We have yet to complete our detailed VFM planning. However, one area of focus is likely to continue to be on the arrangements that the Council has in place in relation to financial sustainability.

We will update the next Audit Committee meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

04 Audit materiality

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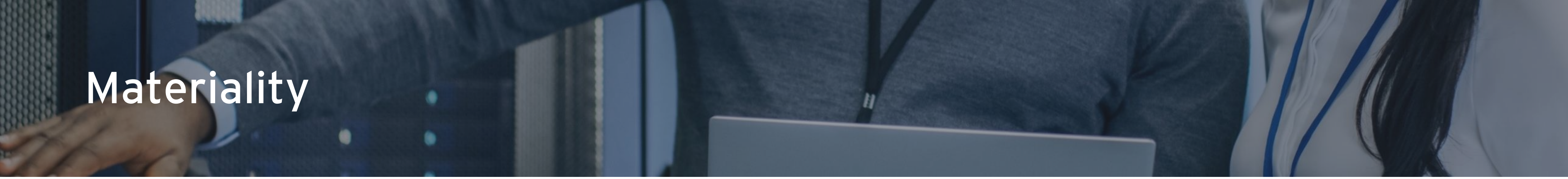

Materiality

Council materiality

For planning purposes, materiality for 2024 has been set at £52m. This represents 1.8% of the Council's 2024 gross expenditure on provision of services. It will be reassessed throughout the audit process.

The Council is a public sector body and the main function of the entity is to provide services to the local community. For a public sector entity, the expectations of users (including regulators) of the entity are focused on the measurement of expenditure and as such the income statement is considered the most appropriate basis for determining materiality for public sector bodies.

Hampshire County Council is not listed, not regulated and is not a Public Interest Entity (PIE). We have considered the fact that the Council is considered as a Major Local Audit (MLA) as expenditures exceeded £500m. Hence, the use of a lower percentage of 1.8% as compared to other entities. We have provided supplemental information about audit materiality in Appendix F.

Gross expenditure on provision of services

£2.8 billion

Planning materiality
£52m

Performance materiality
£39m

Audit differences
£2.6m

The outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the Council's 2022/23 financial statements may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

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 our performance materiality at **£39m** which represents 75% of our planning materiality. We have considered the factors of having a higher likelihood of material misstatements based on prior year adjustments.

Per our initial assessment, we do not believe there are errors that are indicative of pervasive errors throughout the financial statements or a higher likelihood of misstatement in other areas. We have therefore used a higher end or 75% of our Planning Materiality as our Performance Materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. 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.

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05 Scope of our audit

Audit process and strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the Group and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body’s audited financial statements for the relevant reporting period in line with the instructions issued by the National Audit Office.

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 and report a commentary on those arrangements.

Audit process and strategy

Objective and Scope of our Audit scoping (cont'd)

Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

The changes proposed by the consultations are likely to have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit Committee as the audit progresses and our assessment on the required scope and nature of procedures we will undertake becomes clearer. As examples:

- Where prior year audit opinions are modified work will be required to gain assurance, where possible, on opening balances over the period of the recovery phase (phase 2). Where we are unable to gain assurance over opening balances, we anticipate that this may lead to limitation of scope of our audit over those balances.
- Where prior year audit opinions are modified, and particularly where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase.
- Changes to the Code of Audit Practice on Local Authority Accounting will potentially impact on our assessment of audit risk generally, risks associated with significant accounting estimates, such as the valuation of operational property, plant and equipment and the related need to rely on management's and auditor's specialists.

Audit process and strategy

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.
- Reliance on the work of experts in relation to areas, such as pensions and property valuations.

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; and
- Cash and Bank.

Hampshire County Council IBC have commissioned an ISAE 3402 type 2 report from EY's 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 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.

06 Audit team

Audit team

Kevin Suter
Key Audit Partner

Sanchita Rai
Senior Manager

Alison Durham
Assistant Manager

Cloie Pacheco
Senior

Pensions Specialist
Specialist PWC consulting actuary and EY Actuaries

* Key Audit Partner

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Use of specialists

Our approach to the involvement of specialists, and the use of their work

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where management, third-party or EY specialists are expected to provide input for the current year audit are set out in the table below:

Area	Specialists
Valuation of PPE Land and Buildings and Investment Properties	Management Specialist – Management's in-house valuation experts EY Specialist - EY Real Estates
Pensions disclosure	Management Specialist – Hymans Robertson PWC (Consulting Actuary to the NAO) EY Specialist - EY Actuaries
PFI	Management specialist - Capita

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 Group'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
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements

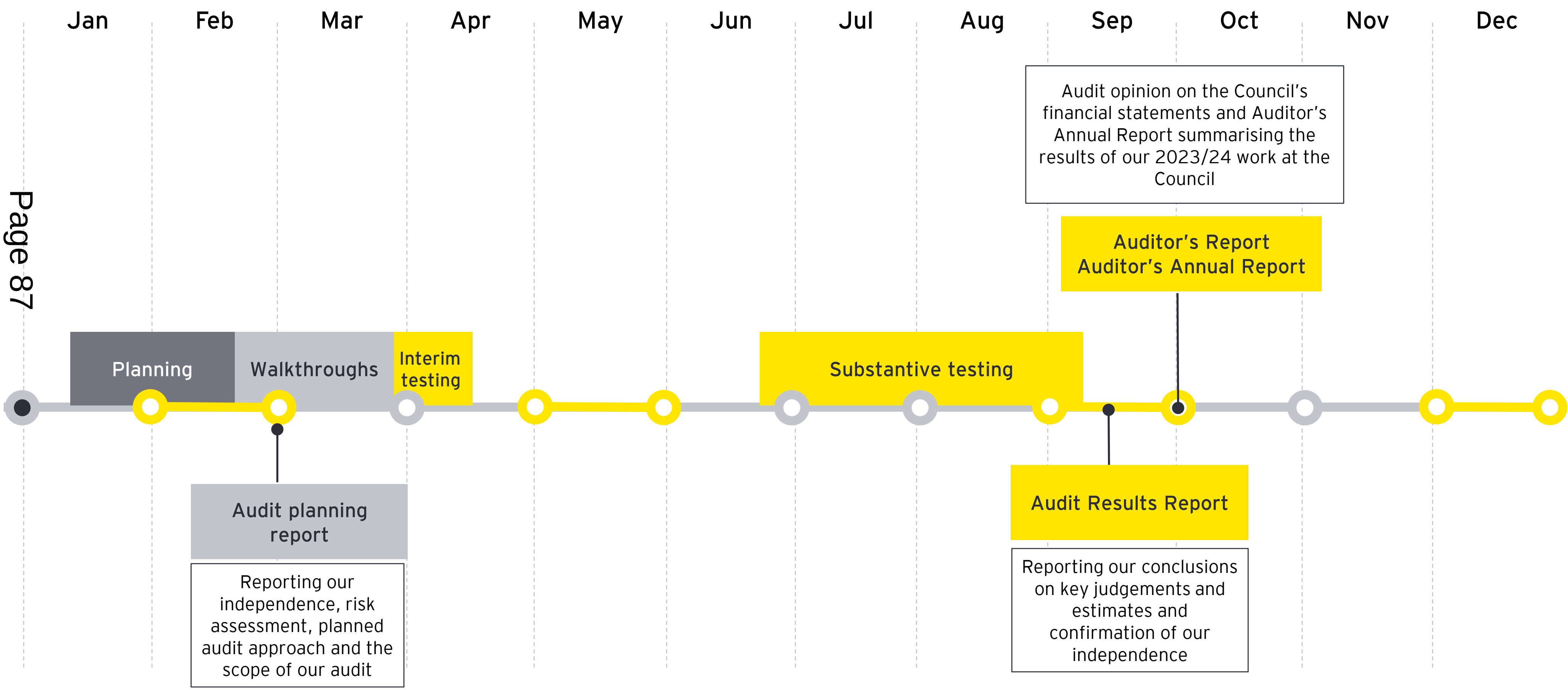
07 Audit timeline

Timetable of communication and deliverables

Indicative timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

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.



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08 Independence

Introduction

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

Required communications	
Planning stage	**Final stage**
▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence.	▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit/additional services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▶ An opportunity to discuss auditor independence issues.

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement.

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

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 granted.

We have adopted the following safeguards:

- 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 or IBC. The controls reviewed will be homogenous controls.
- The work is limited to review of control within the 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 any advice in relation to decisions the IBC/Council may take.

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.

Relationships, services and related threats and safeguards

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 your company. 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 2023

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 period ended 30 June 2023 and can be found here: EY UK 2023 Transparency Report.

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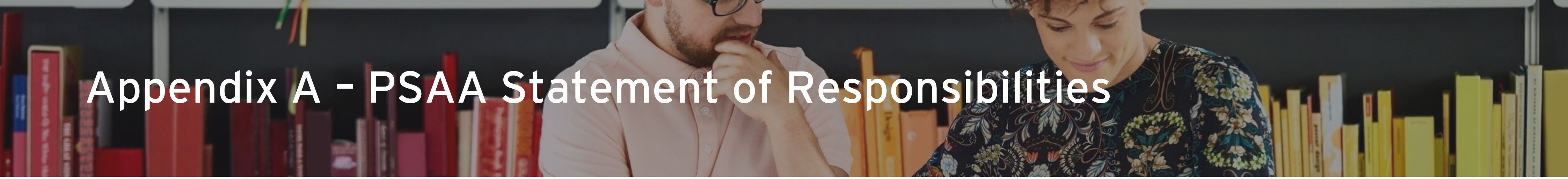
09 Appendices



Appendix A – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- *prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- *ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- *assign responsibilities clearly to staff with the appropriate expertise and experience;*
- *provide necessary resources to enable delivery of the plan;*
- *maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- *ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- *ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- *during the course of the audit provide responses to auditor queries on a timely basis.*

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

Appendix B — Fees

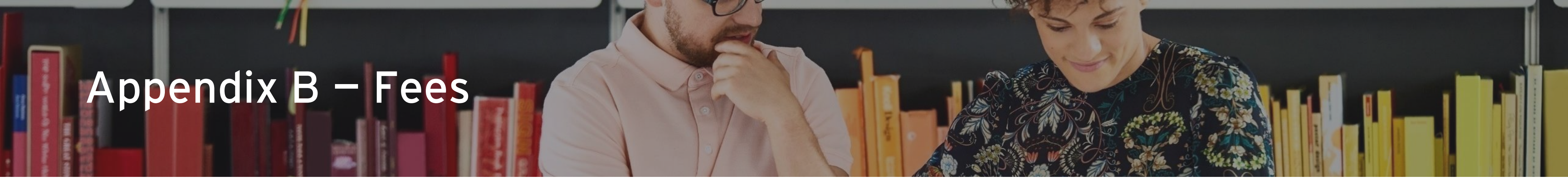
The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The agreed fee presented on the next page is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council;
- The Council has an effective control environment; and
- The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

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.



Appendix B — Fees

	2023/24	Note Reference	2022/23
	£		£
Scale Fee	299,059	(1)	102,439
Additional work not considered by the scale fee to comply with the requirements of ISA (UK) 315 (Revised).	TBC	(2)	-
Additional work not considered by the scale fee to assess the Council's preparedness for the adoption of IFRS 16 and to consider related disclosures in the financial statements	TBC	(2)	-
Total audit	**TBC**		**TBC**
Total other non-audit services - ISAE 3402 report on IBC	**68,300**		**56,500**
Total fees	**TBC**		**TBC**

All fees exclude VAT

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(1) As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DHLUC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2022/23 audit.

(2) The revision to ISA (UK) 315 will impact on our scope and approach, and require us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements. We expect to charge addition fee for this. The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:

- Consideration of correspondence from the public and formal objections.
- New accounting standards, for example additional disclosures in respect of IFRS 16.
- Non-compliance with law and regulation with an impact on the financial statements.
- VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
- The need to exercise auditor statutory powers.
- Prior period adjustments.
- Modified financial statement opinions

Appendix C — Accounting and regulatory update

Future accounting developments

The following table provides a high level summary of the accounting development that has the most significant impact on the Council:

Name	Summary of key measures	Impact on 2023/24
IFRS 16 Leases	▶ CIPFA have confirmed the re will be no further delay of the introduction of the leases standard IFRS 16. ▶ Assets being used by the authority under operating leases are likely to be capitalised along with an associated lease liability. ▶ Lease liabilities and right of use assets will be subject to more frequent remeasurement. ▶ The standard must be adopted by 1 April 2024 at the latest.	▶ The 2023/24 Statement of Accounts must disclose the impact the initial application of IFRS 16 is expected to have on the authority's financial statements. ▶ The authority should make key IFRS 16 policy decisions in accordance with the Code before 1 April 2024. ▶ Officers must implement robust systems to ensure all relevant data points, which could prompt a remeasurement or modification of the accounting entries, are captured in a timely manner.

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Appendix C — Accounting and regulatory update (optional)

Regulatory update

The following table provides a high level summary of the regularity update that has the most significant impact on the Council:

Name	Summary of key measures	Impact on 2023/24

ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement	ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:
	▸ Risk Assessment
	▸ Understanding the entity's internal control
	▸ Significant risk
	▸ Approach to addressing significant risk (in combination with ISA 330)
	The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:
	▸ Drive consistent and effective identification and assessment of risks of material misstatement
	▸ Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
	▸ Modernise ISA 315 to meet evolving business needs, including:
	    ▸ how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
	    ▸ how auditors understand the entity's use of information technology relevant to financial reporting.
	▸ Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.
		We will need to obtain an understanding of the IT processes related to the IT applications of the Council/Authority.
		We will perform procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy.
		When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls where we do not gain assurance substantively, we performed additional procedures.
		We also review the following processes for all relevant IT applications:
		▸ Manage vendor supplied changes
		▸ Manage security settings
		▸ Manage user access
		▸ Manage entity-programmed changes
		▸ Job scheduling and managing IT process
		
		Where appropriate, we will use the assurance available from the Council's ISAE3402 report that it annually commissions on the IBC systems and processes.

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Appendix D — The Spring Report (A combined perspective on enhancing audit quality)

Overview

The Spring Report ('The Report') was released by the Audit Committee Chairs' Independent Forum (ACCIF) on 2 June 2023 and is the first of its kind. The Report is the outcome from a series of discussions held with a group of experienced audit committee chairs, auditors from the top 6 firms, and executives from the Financial Reporting Council. The Report details the 9 key learnings that the group agreed on, proposing evolution not revolution, and is focused on getting the basics right first time leading to enhanced audit quality. The report considers key learnings covering the planning, execution, completion and reporting phases of the audit. The full list of key learnings can be found in the report (accif.co.uk).

Appendix E – 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 on the planned work to be undertaken ► The planned use of internal audit ► The significant risks identified When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Outline Audit planning report - March 2024 meeting of the Audit Committee
Significant findings from the audit	► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process ► Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)	Audit results report

Appendix E — Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	Audit results report
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management	Audit results report
Fraud	▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Audit Committee responsibility	Audit results report

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Appendix E – Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	Audit results report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence ► Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence ► Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.	Outline Audit planning report – March 2024 meeting of the Audit Committee Audit Results Report
External confirmations	► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	► Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ► Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report

Appendix E — Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Internal controls	► Significant deficiencies in internal controls identified during the audit	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	► Key audit matters that we will include in our auditor's report ► Any circumstances identified that affect the form and content of our auditor's report	Audit results report

Appendix F — Additional audit information

Regulatory update

Our objective is to form an opinion on the Council's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the UK, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in . We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, company law 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, including the board's statement that the annual report is fair, balanced and understandable, 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
- Maintaining auditor independence

Appendix F — Additional audit information (cont'd)

Other required procedures during the course of the audit

Procedures required by the Audit Code	▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. ▶ Examining and reporting on the consistency of consolidation schedules or returns with the Group's audited financial statements for the relevant reporting period

We have included in **Appendix E** a list of matters that we are required to communicate to you under professional standards.

Purpose and evaluation of materiality

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

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements
- 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 G - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the Council, either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that… so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations …"

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

The International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and

Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter	Implication
Suspected or known fraud or bribery	Potential fraud/breach of anti-bribery legislation
Health and Safety incident	Potential breach of section 2 of the Health and Safety at Work Act 1974
Payment of an unlawful dividend	Potential breach of Companies Act 2006
Loss of personal data	Potential GDPR breach
Allegation of discrimination in dismissal	Potential non-compliance with employment laws
HMRC or other regulatory investigation	Suspicion of non-compliance with laws/regulations
Deliberate journal mis-posting or allegations of financial impropriety	Potential fraud / breach of Companies Act 2006
Transacting business with sanctioned individuals	Potential breach of sanctions regulations

Appendix G - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years

Management response:

- Timely communication of the matter to auditors (within a couple of days)
- Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both
- Scope the investigation, in discussion with the auditors
- Evaluate findings and agree next steps
- Determine effect on financial statements including disclosures
- Prepare a paper, summarising the outcome of the investigation and management's conclusions
- Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

- Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- Engage external specialists where needed
- Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

Audit response:

- Initial assessment of the NOCLAR matter and its potential impact
- Initial consultation with risk team to determine responsive procedures and the involvement of specialists
- Understand and agree scope of management's investigation with support from specialists as needed
- Evaluate findings and undertake appropriate audit procedures
- Determine audit related impact including accounting and disclosure and audit opinion implications
- Document and consult on the outcome of our procedures
- Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

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HAMPSHIRE COUNTY COUNCIL

Decision Report /Report

Committee:	Audit Committee
Date:	07 March 2024
Title:	Internal Audit Progress Report (January 2024)
Report From:	Deputy Chief Executive, and Director of Corporate Operations

Contact name: Neil Pitman

Email: Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to provide an overview of internal audit activity against the assurance work completed in accordance with the approved audit plan (2023-24) and to provide an overview of the outstanding management actions.

Recommendation(s)

2. That the Audit Committee are invited to note the Internal Audit Progress Report (January 2024) as attached.

Contextual information

3. Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
- undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.

4. In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:

   - The status of 'live' internal audit reports (outstanding management actions);
   - an update on progress against the annual audit plan;
   - a summary of internal audit performance, planning and resourcing issues; and
   - a summary of significant issues that may impact on the Chief Internal Auditor's annual opinion

5. Appendix 1 summarises the activities of internal audit for the period up to January 2024.

Performance

6. 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.

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

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: *'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*	

Other Significant Links

Links to previous Member decisions:	
Title	Date
Direct links to specific legislation or Government Directives	
Title	Date

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 disproportionally low.

2. **Equalities Impact Assessment:**

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

Southern Internal Audit Partnership

Assurance through excellence and innovation

HAMPSHIRE COUNTY COUNCIL

INTERNAL AUDIT PROGRESS REPORT January 2024

Prepared by: Neil Pitman, Head of the Southern Internal Audit Partnership

January 2024

1. Purpose of report

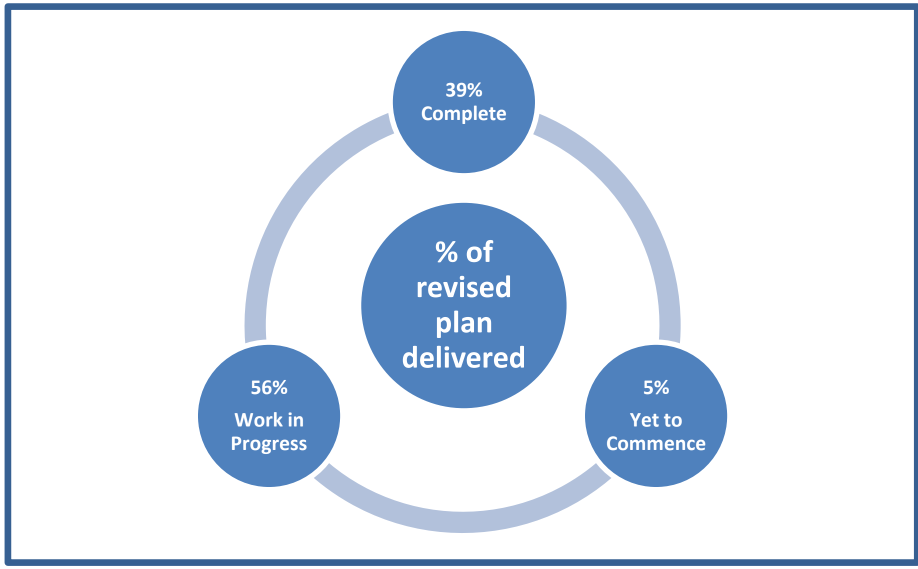
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

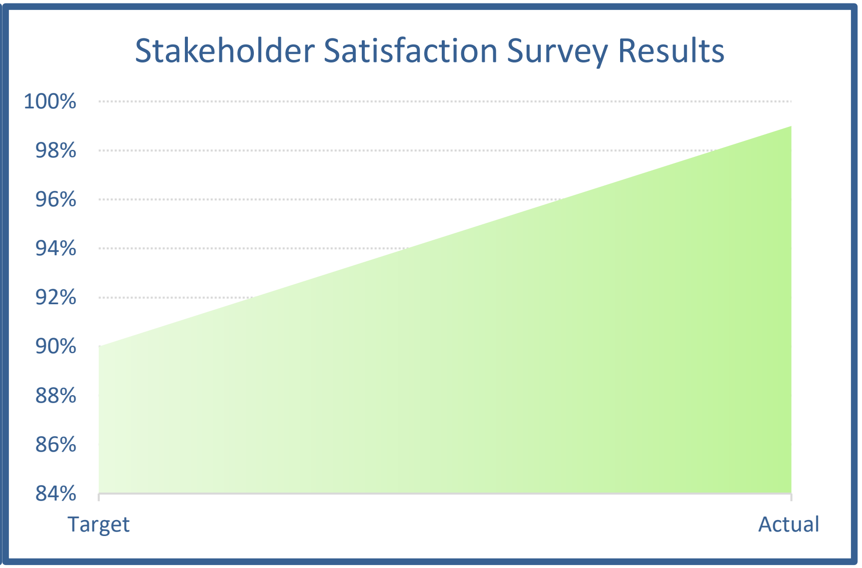
- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:

Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

2. Performance dashboard





Compliance with Public Sector Internal Audit Standards

An External Quality Assessment of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. The report concluded:

'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'

3. Analysis of 'Live' audit reviews

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Actions*	Not Yet Due	Complete	Overdue		
							L	M	H
Travel Plans for Developers	09.02.22	DUS	Reasonable	10(1)	0(0)	9(0)			1
Information Governance	12.05.22	CE	Reasonable	9(5)	0(0)	8(5)		1	
Governance of Trading Companies	20.06.22	DH2050	Reasonable	10(0)	0(0)	7(0)		3	
Records Management Centre	20.06.22	DUS	Reasonable	4(2)	1(0)	2(2)		1	
No Recourse to Public Funds	06.07.22	DCS	Limited	14(11)	0(0)	6(3)			8
Coroners Services	28.07.22	DUS	No	29(9)	0(0)	25(9)	2	2	
Continuing Care Recharge	09.08.22	DCS	Reasonable	11(0)	0(0)	8(0)	3		
Contingency Planning	26.09.22	DAH&C	Limited	11(0)	5(0)	0(0)	2	4	
Afghan Bridging Hotel work	03.10.22	DAH&C	Substantial	1(1)	1(1)	0(0)			
Street Works (Permitting System)	18.10.22	DUS	Substantial	2(0)	0(0)	1(0)		1	
Buildings Health & Safety	22.11.22	DUS	Reasonable	17(9)	0(0)	15(8)	1		1
Cloud Applications – FFT Aspire	14.12.22	DCS	Reasonable	8 (3)	3 (0)	5 (3)			
Cloud Applications – SchoolPod	15.12.22	DCS	Reasonable	4 (1)	4 (1)	0 (0)			
Climate Strategy and Framework	06.02.23	D2050	Reasonable	4(0)	0(0)	3(0)		1	
Developers Contributions	07.02.23	D2050	Reasonable	4(0)	0(0)	3(0)		1	
Cloud Applications – Nourish	09.02.23	DAHC	Reasonable	5 (0)	5 (0)	0 (0)			

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Actions*	Not Yet Due	Complete	Overdue		
							L	M	H
Emergency Planning	28.03.23	DP&O	Reasonable	3 (2)	0(0)	2 (2)		1	
Pay Review and Award Process	16.05.23	SS/ DP&O	Reasonable	5(5)	1(1)	4(4)			
Flood & Coastal Defence Programme	13.06.23	DUS	Substantial	3(0)	0(0)	0(0)	1	2	
HTM H&S compliance	20.06.23	DUS	Limited	8(1)	1(0)	7(1)			
Highways Asset Investment	07.07.23	DUS	Reasonable	4(0)	1(0)	0(0)		3	
Care Charging	18.07.23	DAHC	No Assurance	13(10)	0(0)	10(8)		1	2
Client Affairs	11.08.23	DAHC	Reasonable	12(1)	7(1)	4(0)		1	
SCF Fair Payments	14.08.23	DoUS	Limited	5(2)	0(0)	3(0)			2
Budget Planning (shared services)	24.08.23	SS / DCO	Substantial	2(0)	0(0)	0(0)	2		
Water Hygiene & Legionella	24.08.23	DUS	Limited	13(4)	1(0)	11(4)		1	
Education Psychology	31.08.23	DCS	Reasonable	2(0)	2(0)	0(0)			
Carers Assessments	31.08.23	DAHC	Limited	10(0)	2(0)	5(0)	1	2	
Sickness Management	03.10.23	DP&O	Reasonable	8(0)	1(0)	7(0)			
Equality Impact Assessments	03.10.23	DUS	Reasonable	16(7)	0(0)	3(1)	2	5	6
Road Adoption Process	30.10.23	DUS	Reasonable	2(0)	1(0)	0(0)		1	
Direct Payments	04.12.23	DAHC	Limited	30(9)	0(0)	20(5)		6	4

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Actions*	Not Yet Due	Complete	Overdue		
							L	M	H
Social Supervision	05.12.23	DAHC	Limited	28(0)	21(0)	3(0)	1	3	
IT User Accounts and Permissions	15.12.23	DCO	Reasonable	4 (2)	3 (1)	1 (1)			
Children's Homes–Petty Cash/ PCards	04.01.24	DCS	Limited	20(4)	15(2)	5(2)			
Education Other Than Schools	04.01.24	DCS	Limited	6(5)	0(0)	5(4)			1
School Thematic – Minibus follow-up	09.01.24	DCS	Limited	22(8)	21(8)	1(0)			
Public Health Grant Usage	25.01.24	DAHC	Reasonable	1(0)	1(0)	0(0)			
Out of Area Placements	26.01.24	DAHC	Limited	13(10)	6(5)	7(5)			
Total							**15**	**40**	**25**

***Total number of actions (total number of high priority actions)**

4. Executive Summaries of reports published concluding a 'Limited' or 'No' assurance opinion.

There have been two new reports published concluding a "Limited" or "No" assurance opinion since our last report.

Education Other Than at School (EOTAS)		
Audit Sponsor	**Assurance opinion**	**Management Actions**
Director of Children's Services	Limited	Low 0 / Medium 1 / High 5

Summary of key observations:

The focus of this audit was to review the effectiveness of the processes in place for the commissioning and management of high cost Education Other Than at School (EOTAS) packages. In January 2023, approximately 1% of all 14,500 children with Education and Health Care Plans (EHCPs) in Hampshire were receiving EHCP provisions via EOTAS.

SEND Service staff working on EOTAS packages work to the Department for Education (DfE) and Department of Health (DoH) SEND Code of Practice; and relevant legislation and links from the intranet make the document easily accessible to staff.

The SEN Discretionary Payments Open Framework was introduced during Autumn 2022 to formalise the commissioning of alternative provisions, which includes safeguarding and cost considerations. Testing confirmed new EOTAS pupils and any increased packages for existing pupils are sent to the County Placement Group Panel for scrutiny and approval, which includes costings and whether all options/alternatives have been considered.

However, although the Code of Practice sets a requirement for annual reviews (as a minimum), testing highlighted that of the pupils on EOTAS packages only 37.5% were in date for their annual review with 38.7% having had their annual review process started but not concluded and 23.8% were overdue. Additionally, there is no reporting to management/senior management on EOTAS, so the Council cannot readily monitor against number, costs, reviews etc.

Third party safeguarding concerns are documented and investigated via discussions at the Hampshire & Young People Quality Outcomes and Contract Monitoring Board (QOCM), and we saw evidence of decisions being made by the Assistant Director, however, discussions with staff have highlighted that SEN/Inclusion do not maintain a register of safeguarding concerns/incidents and how they were dealt with and resolved.

Children Services Thematic – Petty Cash and Purchasing Cards

Audit Sponsor	Assurance opinion	Management Actions		
Director of Children's Services	Limited	Low 0	Medium 16	High 4

Summary of key observations:

This review sought to provide assurance over management and usage of the petty cash and purchasing cards across eight of the County Council's residential children's homes. The total expenditure through P-Cards across all eight homes we visited for the period amounted to approximately £132,000, whilst the total petty cash transactions between April and June 2023 amounted to approximately £25,000.

We observed during our visit to all eight homes that corporate and departmental guidance and policies on petty cash and p-cards were in place and made available to all staff. We found hard copies of guidance documents were held in the offices for ease of reference by staff.

Petty Cash

We observed during our visit that petty cash tins in all eight homes were held in secure safes and access was appropriately restricted, petty cash logs were maintained, and appropriately completed. Receipts were found to be in place for most petty cash transactions tested. Where receipts were unavailable (7 out of 78 transactions) they had been logged on a 'No receipt form'. This is a new control which was added as a result of our previous audit. Petty cash transactions were regularly reconciled, and claims submitted on the portal following reconciliation.

However, although testing found for most homes, we visited that petty cash transactions were for minor and incidental expenditure, we did find that some transactions did not meet the criteria for petty cash to be used. We also found the VAT from petty cash transactions was not always treated correctly, although a slightly lower proportion than the last review. Although local petty cash guidance for the homes requires petty cash transactions over £5 to be approved by a RM or Duty Manager, our testing observed that each home had set their own limits different from the guidance. We were advised by RM and AOs during visit discussions that in most cases, approval for transactions were given verbally hence no clear audit trail of approval existed.

Purchasing Cards:

Our visits confirmed that P-Cards were securely held by the cardholder and the use of reward cards had ceased. However, receipts were not always obtained and/or retained to support P-Card transactions. Additionally despite the Shared Services Payments Team providing the Service Managers with quarterly reports of P-Card expenditure, reviews and approvals, our analysis of 2,418 transaction for the period of April to June 2023 found that there were 830 (34%) transactions, approximately £56,655 that had not been approved by the designated approvers on the SDOL system by the deadline of 19 August 2023.

Of the sample transactions tested we could see that VAT was not always claimed correctly or was claimed when there wasn't a valid receipt, and this occurred across all eight homes reviewed.

Through audit analysis of the P-Card monitoring report from April to June 2023, we observed that most of the high value expenditure in the homes were for holiday bookings for children accompanied by staff, however, we found that there was no clear guidance on such expenses to ensure value for money is achieved.

School Thematic Follow-Up Review of Minibuses		
Audit Sponsor	**Assurance opinion**	**Management Actions**
Director of Children's Services	**Limited**	**Low** 6 / **Medium** 8 / **High** 8

Summary

Progress has been made towards the initial agreed actions from 2021/22 thematic review of minibuses. For the 144 journeys tested across the 15 schools we found that all drivers held the required licence for driving minibuses, had been DBS checked, and all 33 vehicles tested had an up-to-date MOT certificate and were covered by a suitable insurance policy.

However, drivers were not always appropriately trained, and training undertaken was not routinely documented in accordance with Health & safety guidelines. Whilst 13 out of the 15 schools in our sample required drivers to be MIDAS trained, there is ambiguity around the alternative training required if MIDAS training is not completed.

Not all schools had an up to date driving for work risk assessment. One school had completed the risk assessment, but it had not been updated since 2018.

Additionally, they were a range of non-compliant areas including:

- vehicle checks were not always carried out or consistently recorded.
- not all schools carried out annual licence checks on drivers who are driving for work purposes.
- a complete log of eligible minibus drivers at each school was not always maintained.
- journey logs were not consistently maintained by schools.

For vehicles that were not managed by HTM, there were no Vehicle Servicing & Maintenance Logbooks maintained by the schools.

Social Supervision		
Audit Sponsor	**Assurance opinion**	**Management Actions**
Director of Adults', Heath & Care	Limited	Low 8; Medium 20; High 0

Summary of key observations:

Social Supervision arrangements are required for any offenders convicted under Section 37 of the Mental Health Act (MHA) discharged to live in the community subject to conditional restrictions under Section 41. Each are subject to regular contact and review by an NHS employed Supervising Clinician and a Local Authority employed Social Supervisor who jointly submit reports assessing fitness to remain in the community to the Ministry of Justice (MoJ) Mental Health Casework Section (MHCS). Each conditionally discharged patient has a designated MHA Section 117 (S117) funding Authority responsible for ensuring social supervision is carried out, whether the patient resides in county or not. At the time of fieldwork, there were 63 patients recorded with Section 37 / 41 status either living in the (HCC) community or within in-patient facilities.

Positively, all Social Supervisors were qualified social workers with at least two years post qualification experience and had completed a social supervision training course prior to undertaking the role of Social Supervisor. Additionally, all patients reviewed had S9 Care Act Assessments and S117 Aftercare Needs Assessments in place and recorded. Peer review sessions and Social Supervisor Forum meetings were also found to be regularly held for case study reviews and discussions around best practice.

However, whilst a new Social Supervision Policy came into effect in February 2023 which contained new guidance on the referral process, record keeping protocols and, also, clarified expectations around updating the logging spreadsheet, it does not fully clarify system recording expectations, arrangements for out of county patients, or cover all scenarios where a Social Supervisor may be allocated a new patient. A number of Social Supervisors spoken to in fieldwork were not aware of its existence, and no exercise was carried out to review patients' records within the system and confirm compliance with new recording protocols.

Although a logging spreadsheet is maintained, it does not allow easy distinction between patients currently subject to social supervision and those within secure in-patient facilities not currently subject to social supervision. Additionally, the logging spreadsheet is not presently being updated in line with guidance and testing found some key details were no longer correct.

Social Supervisors must arrange for case review by a manager every 4 to 6 weeks, and a manager who has completed social supervision training must review and approve MoJ reports prior to them being forwarded to Supervising Clinicians. However, not all MoJ reports or case note histories reviewed contained evidence of management review or records of when case supervision occurred.

Outside of manual review of case notes on a patient-by-patient basis, there is no control in place to identify and monitor completion of next required key steps, or to clarify and document ad-hoc arrangements for out of county patients.

5. Planning & Resourcing

The internal audit plan for 2023-24 was approved by the Council's Management Team and the Audit Committee in September 2023.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 7.

6. Rolling Work Programme

Audit Review	Sponsor	Scoping	ToR	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
2022-23 Carry Forward								
Education Other Than at School	DCS	✓	✓	✓	✓	04.01.24	Limited	
Continuing Health Care + Recharging	DAHC	✓	✓	✓	✓			
Internal Audit Plan 2023-24								
Risk Management	DPO	✓	✓					
Corporate resilience / Business continuity	DPO	✓	✓	✓	✓	12.10.23	n/a	Position statement
Debt Management – AHC F/U	DAHC	✓	✓	✓	✓	10.01.24	n/a	Follow Up
Debt Management – General F/U	DCO	✓	✓	✓				
H&S – fire safety management risk	DPO	✓	✓	✓				
Decision making – officer decisions	DPO	✓	✓					
Meeting publications	DPO	✓						
Consultations	DPO	✓	✓	✓	✓	8.11.23	Substantial	
Insurance Arrangements	DPO	✓	✓	✓				

Audit Review	Sponsor	Scoping	ToR	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
VIM Supplier Invoice Processing	DCO	✓	✓	✓				
Death in Service	DCO	✓	✓	✓	✓	18.12.23	n/a	Position Statement
Trans HR & Pay - checking process	DCO	✓	✓	✓	✓	09.02.24	n/a	Position Statement
IBC system access	DCO							
Annual self-assessment PSIAS	DCO	n/a	n/a	n/a	n/a	n/a	n/a	
Annual Governance Statement	DHR&OD	n/a	n/a	n/a	n/a	n/a	n/a	
SAP Platform Management	DCO	✓	✓	✓				
Security Information and Event Management Platform	DCO	✓	✓	✓				
IT User Accounts and Permissions	DCO	✓	✓	✓	✓	15.12.23	Reasonable	
PCI DSS	DCO	✓	n/a	✓	n/a	31.09.23	n/a	Annual Assessment
Children's Est - Petty cash and Pcards	DCS	✓	✓	✓	✓	04.01.24	Limited	
Agency Social Workers	DCS	✓	✓					
Asylum-Seeking Children	DCS	✓	✓	✓				
Outdoors Service	DCS	✓	✓	✓				
SARs and Complaints (Children’s)	DCS	✓	✓					
Home to School Transport	DCS	✓						
Data Quality (SEN)	DCS	✓	✓	✓				
Sustainability grants	DCS	✓	✓	✓				

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Audit Review	Sponsor	Scoping	ToR	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Children's Direct Payments	DCS	✓	✓	✓	✓			
Section 17 payments	DCS	✓	✓	✓				
School Thematic – Minibus follow up	DCS	✓	✓	✓	✓	09.01.24	Limited	
Schools – Financial Management	DCS	✓	✓	✓				
Schools – One off & recurring payments	DCS	✓						
Schools Financial Value Standards	DCS	✓	✓	✓				
Family Time	DCS							
Commissioning for Younger Adults - Contract Management	DAHC	✓	✓					
Care Director - Governance Arrangements	DAHC	✓	✓					
Care Director – Key Processes	DAHC	✓	✓					
Social Supervision	DAHC	✓	✓	✓	✓	05.12.23	Limited	
Deferred Payments	DAHC	✓	✓	✓				
Care Assessments	DAHC	✓	✓					
Public Health Grant usage	DAHC	✓	✓	✓	✓	25.01.24	Reasonable	
Complaints (Adults)	DAHC	✓						
AHC Estab. – Procurement cards	DAHC	✓	✓	✓				
AHC Estab. – Fundraising accounts	DAHC	✓	✓	✓				
CQC Readiness – Contingency Planning	DAHC	✓	✓					

Audit Review	Sponsor	Scoping	ToR	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Hampshire Equipment Store	DAHC	✓	✓	✓	✓	16.02.24	n/a	Position Statement
DMT Enquiry Process	DUS	✓	✓	✓	✓	05.12.23	Reasonable	
Accident & Near Miss Reporting	DUS	✓						
SCF – Contract / Governance	DUS	✓	✓	✓				
Hampshire Transport Management	DUS							
Project Change Control (Highways)	DUS	✓	✓	✓				
Utilisation of Volunteers	DUS	✓	✓					
Hosted Partnerships	DUS	✓	✓	✓				
Countryside Access Management System	DUS	✓	✓	✓				
Structural Survey	DUS	✓						
Procurement - Southern Construction Framework 5 (SCF-5)	DUS & DCO	✓	✓	✓	✓	04.10.23	Substantial	
Procurement - Framework of Skilled Development for Hampshire	DCO /H2050	✓	✓	✓				
Reading & Hampshire Property Partnership	DUS	✓	n/a	✓	n/a	✓	n/a	Accounts sign off
Supporting Families Claim								
M27 LEP (Fawley Bypass)	DUS	✓	n/a	✓	n/a	✓	n/a	Grant sign off
M27 LEP (Stubbington)	DUS	✓	n/a	✓	n/a	✓	n/a	Grant sign off
LTP – integrated transport plan element	DUS	✓	n/a	✓	n/a	✓	n/a	Grant sign off
LTP – block maintenance element	DUS	✓	n/a	✓	n/a	✓	n/a	Grant sign off

Audit Review	Sponsor	Scoping	ToR	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
LTP – incentive element	DUS	✓	n/a	✓	n/a	✓	n/a	Grant sign off
LTP – Pothole and Challenge Fund	DUS	✓	n/a	✓	n/a	✓	n/a	Grant sign off
Covid-19 BSSG Restart	DUS	✓	n/a	✓	n/a	✓	n/a	Grant sign off
Local Bus Subsidy support grant	DUS	✓	n/a	✓	n/a	✓	n/a	Grant sign off
Growth hub funding to LEPS - core	DUS	✓	n/a	✓	n/a	✓	n/a	Grant sign off
Additional growth hub funding to LEPS	DUS	✓	n/a	✓	n/a	✓	n/a	Grant sign off
Shared Services								
Procurement	DCO/SS	✓	✓					

7. Adjustments to the Internal Audit Plan

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the County Council. Below are the variations made to the original 2023-24 audit plan approved by the Audit Committee in September 2023.

Plan Variations

Removed from the plan	Reason
Care Charging (AHC)	Defer until 24/25 to allow Care Director to embed. Care charging processes will be updated with the new system.
Soft Facilities Management	Postponed due to work related to off boarding of HIW Police and team resourcing pressures.
Procurement thematic – Children's	Deferred to Q1 of 2024/25 due to structural changes around procurement function.
IT Service Management Tool	Deferred to 2024/25 as a key component will not be in place until February/March 2024.
Governor Services	Deferred to 24/25 due to work currently underway in this area by the directorate.
Learning and Development - Evaluation	Deferred to 24/25 to allow full implementation and embedding of the new evaluation framework.
New Mosaic Payment System	Deferred to Q1 24/25 to enable the system to be sufficiently embedded
Procurement, Commissioning & Placements	Deferred util 24/25 due to team restructure and allowing roles and responsibilities to fully embed
End of Life Care	Defer to 24/25 as work currently under way in this area by the directorate
DOLs	Defer to 24/25 due to ongoing review of system processes
Care Provision	Defer to 24/25 to allow Care Director to be implemented and embedded, although some coverage of existing provisions will take place as part of the Care Director – Key Processes review
Additions to the plan	**Reason**
Deferred Payments (AHC)	Added at the request of the Head of Service and Senior Finance Business Partner
Procurement - Framework of Skilled Development for Hampshire	Replaced Procurement - Hampshire Deregistration Partnership Register (HDPR) 2023
Hampshire Equipment Store (position statement)	To attain an understanding of the factors within HES that have contributed to the two separate failures of patient hoists in March 2023 and the subsequent Improvement Notice issued by the HSE in August 2023.
Structural Survey	Audit requested to provide assurance on structural survey as a result of new guidance on RAAC

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	07 March 2024
Title:	Internal Audit Charter 2024-25
Report From:	Deputy Chief Executive, and Director of Corporate Operations

Contact name: Neil Pitman

Tel: 07719 417233 **Email:** Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the Audit Committee with the Internal Audit Charter 2024 – 2025 (Appendix 1) in accordance with the requirements of the Public Sector Internal Audit Standards.

Recommendation(s)

2. That the Audit Committee are invited to comment on and approve the Internal Audit Charter 2024-25 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) requires 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; and
- 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 Audit Committee.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: *'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*	

Other Significant Links

Links to previous Member decisions:	
Title	Date
Direct links to specific legislation or Government Directives	
Title	Date

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 disproportionally low.

2. **Equalities Impact Assessment:**

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

HAMPSHIRE COUNTY COUNCIL

Internal Audit Charter 2024/25

Prepared By: Neil Pitman, Head of Southern Internal Audit Partnership

February 2024

Introduction

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

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

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'.

The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

Mission and Core Principles

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

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

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

- Demonstrate integrity;
- 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; and
- Promote organisational improvement

Authority

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

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

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 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 and Director of Corporate Operations, 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 (AC).

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

Position in the organisation

The Chief Internal Auditor reports functionally to the Audit Committee, and organisationally to the Deputy Chief Executive and Director of Corporate Operations, 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. 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 and Director of Corporate Operations, 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.

'CMT' and *'Audit Committee'* 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 *'CMT'* and *'Audit Committee'*, 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 *'CMT'* and *'Audit Committee'*.

If the Chief Internal Auditor, *'CMT'* or *'Audit Committee'* 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 and Director of Corporate Operations, 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 *'CMT'* and *'Audit Committee'*;
- reports functionally to *'Audit Committee'*;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognise and address potential conflicts of interest.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to *'CMT'* and *'Audit Committee'*. The nature of the disclosure will depend upon the impairment.

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 organisation's 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 liaison 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 it 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

Corporate Management Team

As those responsible for the leadership and direction of the Council it is imperative that the CMT 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 Audit Committee

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

- approving the internal audit charter;
- 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, 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 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 *'CMT'* and *'Audit Committee'* for approval.

Annex 1

Southern Internal Audit Partnership – Client Portfolio

Strategic Partners:	Hampshire County Council
Key Stakeholder Partners:	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 Crawley Borough Council Arun District Council Guildford Borough Council Hart District Council
Blue light Key Stakeholder Partners:	Hampshire & IoW Fire & Rescue Authority West Sussex Fire Service Office of the Hampshire & IoW Police & Crime Commissioner / Hampshire & IoW Constabulary Office of the Sussex Police & Crime Commissioner / Sussex Police Force Office of the Surrey Police & Crime Commissioner / Surrey Police Force
External clients:	Waverley Borough Council Hampshire Pension Fund West Sussex Pension Fund New Forest National Park Authority Ringwood Town Council Lymington & Pennington Town Council Langstone Harbour Authority Chichester Harbour Authority Isle of Wight College

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.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Committee:	Audit Committee
Date:	7 March 2024
Title:	Treasury Management Strategy Statement 2024/25 to 2026/27
Report From:	Deputy Chief Executive and Director of Corporate Operations

Contact name: Gemma Farley

Email: Gemma.Farley@hants.gov.uk

Purpose of the report

1. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) requires authorities to determine their Treasury Management Strategy Statement (TMSS) before the start of each financial year.

2. This Strategy fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3. The purpose of this report is therefore to present the Treasury Management Strategy Statement for 2024/25 to 2026/27. This includes the Annual Investment Strategy for 2024/25.

Recommendations

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

- That the Treasury Management Strategy for 2024/25 (and the remainder of 2023/24) be approved.
- That authority is delegated to the Deputy Chief Executive and Director of Corporate Operations to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

Introduction

5. In 2018 the Ministry of Housing, Communities & Local Government (MHCLG) produced new Investment Guidance including the requirement to produce an Investment Strategy.

6. The County Council's Capital and Investment Strategy sets out the Council's broad approach to investment, including its capital programme, how this is funded, and investments held for service purposes or for commercial profit.

7. This Treasury Management Strategy Statement (TMSS) supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and investments, and the associated risks.

8. 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 financial risk are therefore central to the County Council's prudent financial management.

9. Treasury risk management at the County Council is conducted within the framework of the CIPFA Code which requires the County Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This Strategy fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

10. Investments held for service purposes or for commercial profit are considered separately in the Capital and Investment Strategy.

External Context

11. The following paragraphs explain the economic and financial background against which the TMSS is being set.

Economic background

12. The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the County Council's treasury management strategy for 2024/25.

13. The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. The November 2023 quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

14. Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from 4.6% the previous month, and in line with the recent trend being lower than expected. The core CPI inflation declined to 5.1% from the previous month's 5.7%, again being lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target and then falling below target during the second half of 2025 and into 2026.

Credit outlook

15. Credit Default Swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Quarter 2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

16. On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

17. Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

18. Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

19. There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

20. However, the institutions on the County Council's treasury adviser, Arlingclose's, counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2023)

21. Although UK inflation and wage growth remain elevated, Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's (BoE) Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Quarter 3 2024 to a low of around 3% by early-mid 2026.

22. Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

23. A more detailed economic and interest rate forecast provided by Arlingclose is in Annex A.

Balance Sheet Summary and Forecast

24. On 31 December 2023, the County Council held £174m of treasury borrowing and £496m of investments. This is set out in further detail at Annex B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance sheet summary and forecast

	31/03/23 Actual £m	31/03/24 Estimate £m	31/03/25 Forecast £m	31/03/26 Forecast £m	31/03/27 Forecast £m
Capital Financing Requirement	**750**	**731**	**721**	**735**	**819**
Less: Other debt liabilities*:					
- Leases**	0	0	(15)	(13)	(12)
- Street Lighting PFI	(83)	(79)	(75)	(70)	(65)
- Waste Management Contract	(38)	(34)	(30)	(25)	(20)
Loans CFR	**629**	**618**	**601**	**627**	**707**
Less: External borrowing***:					
- Public Works Loans Board	(188)	(160)	(150)	(141)	(131)
- Other Loans (incl. LOBOs)	(12)	(12)	(12)	(12)	(12)
- Other short-term borrowing	(50)	(50)	(50)	(50)	(50)
Total external borrowing	**(250)**	**(222)**	**(212)**	**(203)**	**(193)**
Internal borrowing	**379**	**396**	**389**	**424**	**529**
Less: Balance sheet resources	(1,078)	(704)	(566)	(504)	(335)
New borrowing or (Treasury investments)	**(699)**	**(308)**	**(177)**	**(80)**	**194**

* Leases and PFI liabilities that form part of the County Council's debt

** IFRS 16 requires the County Council to change how it recognises its leases from 1 April 2024.

*** shows only loans to which the County Council is committed and excludes optional refinancing

25. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The County Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

26. It is forecast that the County Council will continue to take advantage of internal borrowing, which will increase through until 2024/25, whilst paying off Public Works Loan Board (PWLB) debt as maturities arise.

27. Reserves and balances are due to reduce significantly over the forecast period due to the anticipated funding of the Capital Programme and use of the Budget Bridging Reserve (BBR) to balance the budget pending further savings to be planned and delivered, whilst the Dedicated Schools Grant deficit unusable reserve is forecast to continue to grow, reaching over £370m by 2026/27. These factors are culminating in reducing treasury

investment balances with a forecast requirement to borrow in 2026/27 if reserves and capital expenditure are fully delivered as planned, which would have further financial implications for the Council's revenue budget.

28. Since 2018 the County Council has (publicly and consistently) said that without fundamental changes to the way in which local government is funded, it will not be financially sustainable. The balance sheet forecast starkly presents the scale of the challenge facing the Council over the coming years in the absence of such a change.

29. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the County Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the County Council expects to comply with this recommendation during 2024/25.

Liability benchmark

30. To compare the County Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

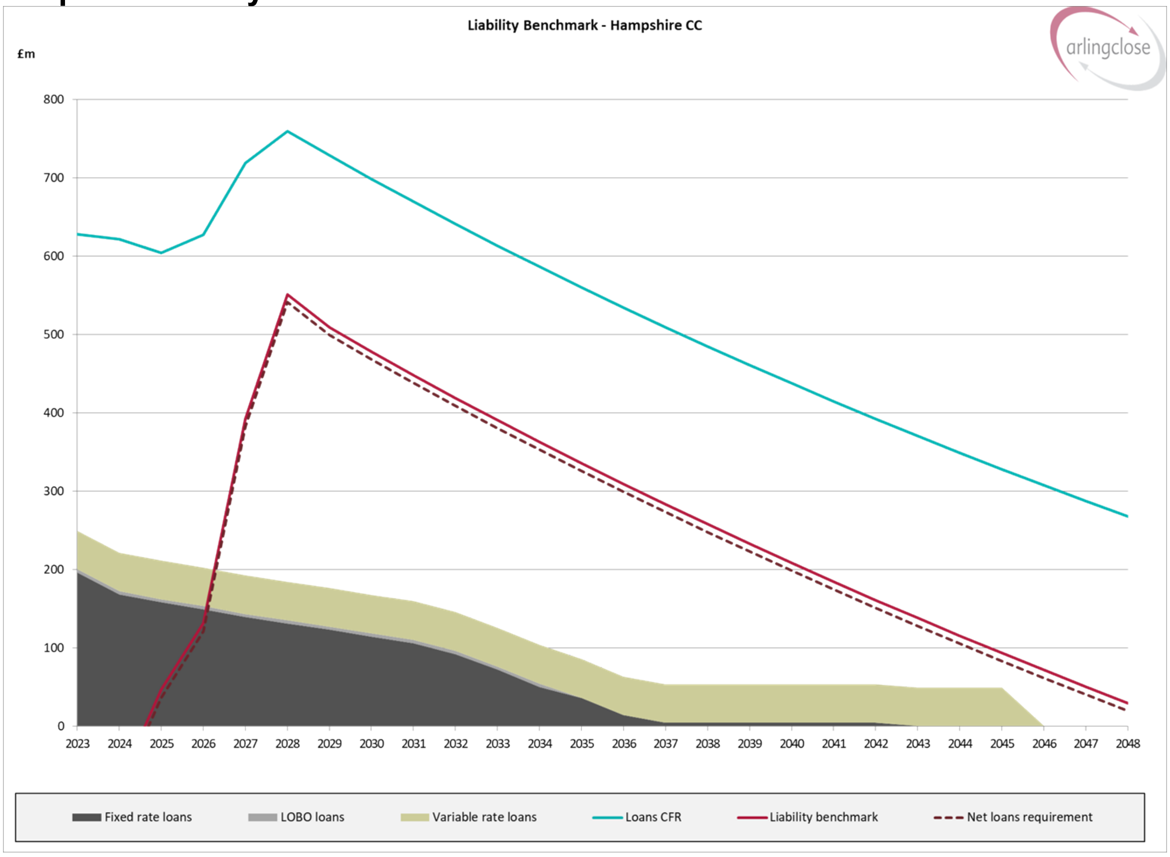
31. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31/03/23 Actual £m	**31/03/24 Estimate £m**	**31/03/25 Forecast £m**	**31/03/26 Forecast £m**	**31/03/27 Forecast £m**
Loans CFR	629	618	601	627	722
Less: Balance sheet resources	(1,078)	(704)	(566)	(504)	(335)
Net loans requirement	**(449)**	**(86)**	**35**	**123**	**387**
Plus: Liquidity allowance	10	10	10	10	10
Liability benchmark	**(439)**	**(76)**	**45**	**133**	**397**

32. At the start of the period, 31 March 2023, the County Council had a Loans CFR of £629m, external borrowing of £250m, balance sheet resources of £1,078m and a liability benchmark of -£439m. The difference of £379m between the CFR and external borrowing is internal borrowing which is where the County Council has used its own resources to fund its borrowing requirement.

Graph 1: Liability benchmark



33. The liability benchmark is the lowest level of debt the County Council could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The liability benchmark graph is created based on five years of data, which explains why the Loans CFR line reduces past the initial five year period – the diagram assumes that no new capital projects will begin after 2026/27, which is a very unlikely scenario but a reflection of the current horizon for capital expenditure forecasts.

34. The County Council expects a negative liability benchmark at the beginning of the forecast period (which cannot be seen on Graph 1) which then moves to a positive liability benchmark in 2025, reflecting the forecast balance sheet resources position mapped out in Tables 1 and 2. A positive liability benchmark that extends above the loans lines shows a need to take additional borrowing as the balance sheet resources and current external borrowing combined are not sufficient to meet the CFR. Therefore Table 2 and Graph 1 illustrate that from 2027 the Council's existing borrowing is

forecast to no longer be sufficient to meet the liability benchmark and the Council will need to source external borrowing if it is to meet the full delivery of its capital programme. The Council will keep the position under review and continue to take advice from Arlingclose on the most appropriate time to borrow when it is required.

Borrowing Strategy

35. The County Council held £174m of treasury management loans as at 31 December 2023, a decrease of £30m from 12 months previous, as part of its strategy for funding previous years' capital programmes, but also includes amounts held on behalf of others for governance or administration purposes. As interest rates have risen the opportunity was taken in June 2023 to repay £20m of PWLB loans (in addition to the early repayment of £12m of PWLB debt and £29m of other loans (including some Lenders Option Borrowers Option (LOBO) loans) in 2022/23). This has locked-in a future rate of return for the Council on the use of resources used to repay debt and reduced overall treasury risk by reducing overall cash balances.

36. The balance sheet forecast in Table 1 shows that the County Council has a high level of internal borrowing in comparison to its CFR but currently does not expect to need to take on new external borrowing in 2024/25. Tables 1 and 2 of this strategy do however indicate that the Council may need to borrow in future years. The County Council has the option to borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £760m. The Deputy Chief Executive and Director of Corporate Operations will explore all options to ensure the financial stability of the County Council in future years.

Objectives

37. The County Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the County Council's long-term plans change is a secondary objective.

Strategy

38. Given the significant cuts to public expenditure and in particular to local government funding, the County Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium term to either use internal resources, or to borrow short-term loans instead.

39. By internally borrowing, the County Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Arlingclose will assist the County Council in regularly monitoring the benefits of this approach against taking on short term external borrowing and the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

40. The County Council has previously raised the majority of its long-term borrowing from the PWLB. The County Council does not expect to take on any new long-term borrowing in 2024/25 due to the forecast level of reserves, however should the County Council need to borrow any long-term amounts it will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield, however the County Council's investment strategy does not support this activity and so will retain its access to PWLB loans.

41. The County Council may also arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

42. In addition, the County Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

Sources of borrowing

43. The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK.
- Any other UK public sector body.
- UK public and private sector pension funds (except Hampshire Pension Fund).
- Capital market bond investors.
- retail investors via a regulated peer-to-peer platform

- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

Other sources of debt finance

44. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative (PFI)
- sale and leaseback
- similar asset based finance

LOBOs

45. The County Council holds £4.0m of LOBO 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.

46. This loan has options during 2024/25, and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the County Council will take the option to repay LOBO loans to reduce refinancing risk in later years. Total borrowing via LOBO loans will be limited to the current level of £4m.

Short-term and variable rate loans

47. These loans leave the County Council exposed to the risk of short-term interest rate rises. This risk is monitored through the indicator on interest rate exposure in the treasury management indicators in this report.

Debt rescheduling

48. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The County Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more

favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

49. The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the County Council's treasury investment balance has ranged between £454m and £800m.

50. Over the last 12 months the investment balance has fallen by £225m which is largely due to the combination of the County Council's decision to pay employer's LGPS pension contributions in advance on 1 April 2023 for the three-year period to March 2026 at a cost of just over £264m, and the early repayment of £61m of external borrowing between October 2022 and June 2023. These decisions have been made to take advantage of savings, whilst also reducing the level of external borrowing.

Objectives

51. 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 rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The County Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy

52. The County Council aims to continue to hold a diversified investment portfolio, including investments in more secure and/or higher yielding asset classes. This is especially the case for the estimated funds that are available for longer-term investment.

53. The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the County Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

54. At 31 December 2023 approximately 77% of the County Council's investment balances were invested so that they were not subject to bail-in risk (that investors funds are taken to sure a failing bank), as they were invested in Government investments, secured bank bonds and pooled funds.

55. Of the 23% of investment balances that were subject to bail-in risk at 31 December 2023, 93% were held in overnight money market funds and cash plus funds which are subject to a reduced risk of bail-in due to the high level of diversification within these investments, and the remainder was held in overnight bank call accounts for liquidity purposes.

56. Further detail is provided at Annex B. This diversification is a continuation of the strategy adopted in 2015/16.

Business models

57. Under the IFRS 9 standard, the accounting for certain investments depends on the 'business model' for managing them. The County Council aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Environmental, social and governance factors

58. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Investments targeting higher returns

59. In previous years the County Council earmarked an amount of its cash balances for investments targeting higher yields; these were made from its most stable core balances with the intention that they would be held for at least the medium term, and it was targeted that these investments would achieve a return of at least 4%. This was a successful approach through the period of very low interest rates, as this portfolio achieved higher interest rates than what was being achieved by cash investments and

significantly increased the annualised average income return for the total investment portfolio.

60. Following the increases in UK Bank Rate the decision was made to subsume the investments targeting higher returns within the long-term investment portfolio as there was no longer a significant difference between the interest rates being achieved by those investments and cash, as short-term interest rates are now comparable with longer term interest rates.

61. The County Council will however continue to make use of long-term balances, making investments in longer term investments including local authorities, other asset classes and regions, fixed capital value and pooled funds to mitigate the risk of low interest rates which will affect cash investments when UK Bank Rate is reduced. This diversification also helps to mitigate the risk of overexposure to a single event affecting a specific asset class.

62. The County Council continues to invest in pooled funds (although this allocation has reduced over the last 12 months) which enables the County Council to achieve a greater degree of diversification than could effectively be achieved 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 with property investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.

63. Diversification in itself does not guarantee positive outcomes. The selection of pooled funds is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the County Council's income returns aims without putting its initial investment at undue risk over the longer term. The County Council is therefore currently invested in pooled 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, however they are likely to deliver good income returns for the longer term.

64. The investible universe for pooled funds is vast and part of the service provided by Arlingclose as treasury advisers is to conduct research and suitable due diligence on pooled funds prior to making recommendations to their clients.

65. 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 will therefore continue to conduct 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.

66. At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever be realised, since the County Council would avoid selling investments that realised a capital loss. In addition to the risk of realising a capital loss, changes to IFRS 9 mean that capital gains and losses on investments need to be reflected in the revenue account on an annual basis, although there is currently a statutory override in place for local authorities that exempts them from complying with this requirement.

67. The County Council is aware of the risks involved with investing in pooled funds that hold underlying investments in equities and property. When the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently £10.15m.

Investment Limits

68. The maximum that will be lent to any one organisation (other than the UK Government) will be £80m, which although is a reduction in comparison to the previous TMSS, this is a return to more normal limits. The limits had been temporarily increased in the 2023/24 TMSS due to increased investment balances.

69. Table 1 indicates that treasury balances are forecast to reduce over the longer term, however this investment strategy needs to contain investment limits that allow flexibility to manage higher mid-year investment balances as well as to ensure that all of the County Council's cash can be invested in accordance with this TMSS in the eventuality that the capital programme doesn't proceed as planned, and increased investment balances become available.

70. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 3.

Table 3: Investment Limits

	Cash Limit
Any single organisation, except the UK Central Government	£80m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£200m per manager

Approved Counterparties

71. The County Council may invest its surplus funds with any of the counterparty types in Table 4, subject to the limits shown:

Table 4: Sector and counterparty limits

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	30 years	Unlimited	n/a
Local authorities & other government entities	25 years	£80m	Unlimited
Secured investments *	25 years	£80m	Unlimited
Banks (unsecured) *	13 months	£40m	Unlimited
Building societies (unsecured) *	13 months	£40m	£80m
Registered providers (unsecured) *	5 years	£40m	£80m
Money market funds *	n/a	£80m	Unlimited
Strategic pooled funds	n/a	£80m	£400m
Real estate investment trusts	n/a	£40m	£80m
Other investments *	5 years	£40m	£80m

This table must be read in conjunction with the notes below

*** Minimum credit rating**

72. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-/A3. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant known factors including external advice will be taken into account.

73. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government

74. Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 30 years.

Secured investments

75. Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured)

76. Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured)

77. Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds

78. Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the

advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the County Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds

79. Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date, but are available for withdrawal after a notice period; their performance and continued suitability in meeting the County Council's investment objectives will be monitored regularly.

Real estate investment trusts (REITs)

80. Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments

81. This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the County Council's investment at risk.

82. The Council's Strategy had previously allowed for investment in unrated corporate entities where the Council owned an interest in the company and had participation in its governance. Having received further advice these investments will now be classified as 'Investments for Service Purposes', following the approval of this policy, and are reported on in the Capital and Investment Strategy.

Operational bank accounts

83. The County Council may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB-/Baa3 and with total assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and

balances will therefore be kept low. The County Council's operational bank account is with National Westminster – NatWest (currently with a lowest long-term credit rating of A+) and aims to keep the overnight balances held in current accounts positive, and as close to zero as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion (such as NatWest) are more likely to be bailed-in than made insolvent, increasing the chance of the County Council maintaining operational continuity.

Risk assessment and credit ratings

84. Credit ratings are obtained and monitored by the County Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

85. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the security of investments

86. The County Council understands that credit ratings are good but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the County Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

87. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market

measures. In these circumstances, the County Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the County Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Reputational aspects

88. The County Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

Liquidity management

89. The County Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the County Council's medium term financial position (summarised in Table 1) and forecast short-term balances.

90. The County Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the County Council will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

Treasury Management Prudential Indicators

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

Interest rate exposures

92. The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 5: Interest rate risk indicator

	31/12/2023 Actual	Impact of +/- 1% interest rate change
	£m	£m
Sums subject to variable interest rates:		
Investment	379	+/- 3.8
Borrowing	(6)	+/- 0.1

Maturity structure of borrowing

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

Table 6: Refinancing rate risk indicator

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	75%	0%
20 years and within 30 years	75%	0%
30 years and above	100%	0%

94. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term treasury management investments

95. 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 prudential limits on the long-term treasury management investments will be:

Table 7: Price risk indicator

	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£400m	£350m	£300m

96. Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Related Matters

97. The CIPFA Code requires the County Council to include the following in its treasury management strategy.

Financial derivatives

98. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

99. The County Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the County Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

100. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit.

101. In line with the CIPFA Code, the County Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

External Funds

102. The County Council manages cash on behalf of Thames Basin Heaths as the County Council is the Administrative Body which effectively means acting as the banker. As part of this role the County Council invests the monies held in accordance with instructions from Thames Basin Heaths. Investment decisions are made by the Thames Basin Heath Joint Strategic Partnership Board (JSPB) and they are advised by the County Council's Treasury Management Advisers, Arlingclose. The JSPB assumes all risks associated with these investments. All interest earned on those cash balances is allocated to Thames Basin Heaths using the County Council's accounting software system.

Investment training

103. The needs of the County Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

104. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

105. CIPFA's Code of Practice requires that the County Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Investment advisers

106. The County Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Director of Corporate Operations, his staff and Arlingclose.

Markets in Financial Instruments Directive

107. The County Council has opted up to professional client status with its providers of financial services, including advisers, brokers, and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the County Council's treasury management

activities, the Section 151 Officer believes this to be the most appropriate status.

Other Options Considered

108. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Corporate Operations believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 8.

Table 8: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Consultation, Equalities and Climate Change Impact Assessment

109. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools

provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

110. This report deals with the treasury management strategy for 2023/24. In line with the CIPFA code, the County Council's treasury management investment balances are invested prioritising security, liquidity and then yield. The County Council's investments in pooled funds, which include investments in equities and bonds issued by a number of companies with exposures to a variety of issues, including those associated with Climate Change. All of the County Council's pooled funds are managed by investment managers who are signatories to the PRI (Principles for Responsible Investment), managing investments in line with their own individual responsible investment policies. The County Council's Treasury Management Advisers, Arlingclose, have advised the County Council on the suitability and selection of its pooled funds, including the investment managers' management of Environmental, Social and Governance (ESG) issues including the impact of Climate Change.

111. There are no further climate change impacts as part of this report which are concerned with financial reporting.

Annex A – Arlingclose Economic & Interest Rate Forecast - December 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Quarter 3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Quarter 3 2024 to a low of around 3% by early mid 2026.

- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B - Existing Investment & Debt Portfolio Position at 31 December 2023

Treasury investments position

Investments	30/09/2023 Balance £m	Net movement £m	31/12/2023 Balance £m	31/12/2023 Income return %	31/12/2023 Weighted average maturity years
Short term investments					
Banks and building societies:					
- Unsecured	7.4	0.4	7.8	4.47	0.01
- Secured	0.0	10.0	10.0	5.62	0.97
Money Market Funds	68.3	28.7	97.0	5.30	0.01
Government:					
- Local Authorities	118.0	3.0	121.0	5.12	0.42
- UK Treasury Bills	25.0	(15.0)	10.0	5.27	0.19
Cash Plus Funds	10.0	0.0	10.0	3.57	0.01
	228.7	**27.1**	**255.8**	**5.13**	**0.25**
Long term investments					
Banks and building societies:					
- Secured	12.9	0.0	12.9	4.58	1.62
- High Quality	38.9	0.0	38.9	5.72	2.01
Government:					
- Supranational Banks	45.0	0.0	45.0	4.82	3.05
- Local authorities	23.6	0.0	23.6	5.47	9.19
Registered providers*	0.0	0.0	0.0	N/A	N/A
Pooled funds:					
- Pooled property**	75.0	0.0	75.0	4.07	N/A
- Pooled equity**	30.0	0.0	30.0	6.00	N/A
	225.4	**0.0**	**225.4**	**4.94**	**3.77**
Total Investments	**454.1**	**27.1**	**481.2**	**5.04**	**2.43**
Thames Basin Heath pooled fund investments	15.0	0.0	15.0		
Total	**469.1**	**27.1**	**496.2**		

* Revolving credit facilities totalling £70m are in place with registered providers, currently not drawn. These agreements provide the Council with an average non-utilisation fee of 0.26% per annum by reference to the undrawn amounts of the facilities.

** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2023 based on the market value of investments 12 months earlier.

Treasury management position	**31/12/2023 Balance £m**	**31/12/2023 Rate %**
External Borrowing:		
- PWLB Fixed Rate	(162)	(4.66)
- Other Loans (including LOBO Loans)	(12)	(4.19)
- Other Short-term Borrowing*	(50)	(0.00)
Total External Borrowing	**(224)**	**(3.60)**
Other Long-Term Liabilities:		
- Street Lighting PFI	(83)	
- Waste Management Contract	(38)	
- Leases	0	
Total Other Long-Term Liabilities	(121)	
Total Gross External Debt	**(345)**	
Investments	**481**	**5.04**
Net (Debt) / Investments	**136**	

* includes balances held by the County Council on behalf of others for governance or administrative reasons

Annex C – Treasury management indicators at 31 December 2023

Investment limits	**31/12/23 Actual £m**	**2023/24 Authorised Limit**	**Complied**
The UK Government	10.0	Unlimited	✓
Local authorities & other government entities	189.6	Unlimited	✓
Secured investments	61.8	Unlimited	✓
Banks (unsecured)	7.8	Unlimited	✓
Building societies (unsecured)	0.0	£90m	✓
Registered providers	0.0	£90m	✓
Money market funds	97.0	Unlimited	✓
Strategic pooled funds	115.0	£450m	✓
Real estate investment trusts	0.0	£90m	✓
Other investments	0.0	£90m	✓

Debt limits	**2023/24 Maximum £m**	**31/12/23 Actual £m**	**2023/24 Operational Boundary £m**	**2023/24 Authorised Limit £m**	**Complied**
Borrowing	(251)	(225)	(745)	(780)	✓
PFI and Finance Leases	(121)	(121)	(135)	(140)	✓
Total debt	**(372)**	**(346)**	**(880)**	**(920)**	✓

Refinancing rate risk indicator	**31/12/23 Actual**	**Upper Limit**	**Lower Limit**	**Complied**
Under 12 months	3%	50%	0%	✓
12 months and within 24 months	7%	50%	0%	✓
24 months and within 5 years	16%	50%	0%	✓
5 years and within 10 years	35%	75%	0%	✓
10 years and above	39%	100%	0%	✓

Price risk indicator	**2023/24**	**2024/25**	**2025/26**
Actual principal invested beyond year end	£225m	£218m	£149m
Limit on principal invested beyond year end	£400m	£400m	£400m
Complied?	✓	✓	✓

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

Other Significant Links

Links to previous Member decisions:	
Title	Date
Direct links to specific legislation or Government Directives	
Title	Date

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 disproportionally low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report which relates to the County Council's management of its cash investment balances.

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	7 March 2024
Title:	Minutes of the Hampshire Pension Fund Panel and Board (Public) – 29 September 2023
Report From:	Director of People and Organisation

Contact name: Caroline Roser

Email: members.services@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the public minutes from the meeting of the Hampshire Pension Fund Panel and Board which took place on 29 September 2023.

Recommendation

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

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	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 disproportionally 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 the castle, Winchester on Friday, 29th September, 2023

Chairman:
Councillor M. Kemp-Gee

Vice-Chairman:
* Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

* A. Crawford	* T. Davies
J. Glen	D. Harrison
* D. Hiscock	* A. Joy
* R. Mocatta	* D. Mellor

Employer Representatives (Co-opted members):
* Councillor S. Letts (Southampton City Council)
Councillor P. Taylor (District Councils - Rushmoor Borough Council)
* Ms F. Hnatow (University of Portsmouth)
Councillor J. Smyth (Portsmouth City Council)

Scheme Member Representatives (Co-opted members):
* Mr P. Reynolds (pensioners' representative)
* Mr N. Wood (scheme members representative)
* Ms L. Gowland (deferred members' representative)

Independent Adviser:
* C. Dobson

*present

149. **APOLOGIES FOR ABSENCE**

Cllrs Glen, Harrison and Kemp-Gee sent their apologies.

150. **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 Personal interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 4 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.

151. **CONFIRMATION OF MINUTES OF THE PREVIOUS MEETING (PUBLIC)**

The minutes of the Pension Fund Panel and Board held on 28 July 2023 were confirmed.

152. **DEPUTATIONS**

The Chairman welcomed two deputations from Christine Holloway and David Lee, and Jude Wilkinson who spoke on item 14 of the agenda.

153. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman congratulated Mr Phillip Reynolds on being appointed as the Pensioner Representative on the Panel and Board and informed the committee that Mr Paul Barber, who unfortunately couldn't attend the meeting, had been appointed as the new deputy.

The Chairman informed the committee that Cllr Cooper had been replaced on the committee by Cllr Harrison. And the Chairman welcomed back Cllr Letts as the new representative of Southampton City Council.

154. **GOVERNANCE: RESPONSIBLE INVESTMENT SUB-COMMITTEE APPOINTMENTS**

The Panel and Board considered a report of the Director of Corporate Operations (item 6 in the Minute Book) for appointments to be made to the Pension Fund's Responsible Investment Sub-Committee. The terms of reference for a Responsible Investment (RI) sub-committee specify that the Sub-Committee's membership will be reviewed annually by the Panel and Board 'following the principle that appointments will rotate annually where practical and taking proportionality requirements into account'.

RESOLVED:

That Ms Hnatow was appointed to the Responsible Investment Sub-Committee and Mr Reynolds, Cllr Letts, Cllr Harrison and Cllr Mocatta were appointed as deputies.

155. **DRAFT MINUTES OF THE RESPONSIBLE INVESTMENT SUB-COMMITTEE - 12 SEPTEMBER 2023**

The Panel and Board received the (non-exempt) minutes of the RI Sub-committee on 12 September 2023.

156. **MINUTES OF THE ACCESS JOINT COMMITTEE (PUBLIC) – 5 JUNE 2023**

The Panel and Board received the (non-exempt) minutes of the ACCESS Joint Committee on 5 June 2023.

157. **GOVERNANCE: PENSION FUND PANEL AND BOARD TRAINING PLAN 2023/24**

The Panel and Board considered a report of the Director of Corporate Operations (item 9 in the Minute Book) setting out the proposed training arrangements for Members of the Pension Fund Panel and Board in 2023/24. The Director underlined the importance of training for Panel and Board members in their role in the governance of the Pension Fund and their regulatory responsibilities as Pension Committee and Board members.

The Director clarified that the training policy now included a minimum training requirement for Panel and Board consisting of:

- For new Members; the LGA Fundamentals course which provides background on LGPS legislation and governance, and for all Members;
- The Hymans Aspire modules – to be completed in the next 12 months; and
- Internal briefing sessions designed to cover areas highlighted from Members TNAs and matters arising from the Pension Fund's Business Plan.

The Director recommended that the Panel and Board complete Hymans Robertson's LGPS Knowledge Assessment, an online independent assessment that would provide an additional layer of assurance to evidence the Panel and Board's sound approach to training. The Director stressed that the requirement for training as a Panel and Board is strong and only increasing through the SAB's Good Governance agenda, and the Knowledge Assessment would be an appropriate further step for the governance of the Pension Fund.

Members had completed a training needs analysis which had been used by the Pension Fund's officers to identify relevant previous training that can be recirculated to Members, as well as proposing a new programme of internal training for 2023/24. Following the positive feedback on the recent LGC conference, Members expressed their support that the training budget continues to fund three places at the 2023 conference.

RESOLVED:

The Panel and Board:

a) Noted its obligation in regulation for knowledge and understanding as an LGPS Panel Board and the increasing scrutiny of this area.
b) Agreed to commit to completing the Minimum Training Requirements set out in the report including completing the Hymans Aspire modules in the next 12 months.
c) Agreed to sign up to the Hymans Robertson LGPS National Knowledge Assessment.
d) Approved the remainder of the Training Policy and Plan for 2023/24.

158. **INVESTMENTS: SUSTAINABLE INVESTMENT**

The Panel and Board considered a report of the Director of Corporate Operations (item 10 in the Minute Book) reporting on the Pension Fund's sustainable investments in its alternative investment portfolios (private equity, private debt and infrastructure). To date is had been difficult to quantify the Pension Fund's alternative investments contribution to managing climate change because the availability of carbon data for these types of investments was lagging listed investments, although this was slowly improving. However due to their ability to invest in early stage and smaller enterprises, as well as real assets, alternative investments are ideally suited to make sustainable investments.

The Pension Fund's officers had asked the Fund's alternative investment managers to identify the investments in their current portfolios that would meet sustainability objectives. The investment managers were then asked what proportion of sustainable investments they could get to in their portfolios by 2025/26 without compromising their ability to meet Hampshire investment targets. Of the Pension Fund's combined 22.5% allocation to alternative investments 3.5% of the total Pension Fund is currently invested in sustainable investments (£313m as at 31 March 2023).

The Director reported that the Fund's sustainable investments include 0.6% (£52m as at 31 March 2023) of investments in the UK, which would count as investment in the Levelling-Up agenda, plus a further £40m in the Fund's UK property portfolio. The Pension Fund's alternative investment managers confirmed that they could grow the sustainable investments in their portfolios to a combined 7% of the total Pension Fund by 2026. This was considered an initial step for the Fund for the first time establishing a target for sustainable alternative investments. Beyond 2026 the target could be revisited with the investment managers in the expectation of further increases.

RESOLVED:

a) That the Panel and Board notes that:

- Of the Pension Fund's combined 22.5% allocation to alternative investments, 16.9% is currently invested in sustainable investments (3.5% of the whole Fund or nearly £313m as at 31 March 2023).
- Of this 2.8% (0.6% of the whole Fund or £52m as at 31 March 2023) are investments in the UK, which would count as investment in the Levelling-Up agenda.
- The Pension Fund's alternative investment managers have confirmed that they could grow the sustainable investments in their portfolios to a combined 31.1% (7.0% of the total Pension Fund) by 2026.

b) That the Panel and Board agrees the aims set out in this report for the Fund's three alternative investment portfolio to increase their allocations to sustainable investments as follows by 2026:

- Private Equity - 20%
- Infrastructure – 50%
- Private Debt – 10%.

c) That having agreed initial aims for sustainable investments the Panel and Board agreed to join the group Pensions for Purpose.

159. **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 5 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.

160. **CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING (EXEMPT)**

The exempt minutes of the Pension Fund Panel and Board held on 28 July 2023 were confirmed.

161. **MINUTES OF THE ACCESS JOINT COMMITTEE 5 JUNE 2023 (EXEMPT)**

The Panel and Board received the exempt minutes of the ACCESS Joint Committee on 5 June 2023.

162. **GOVERNANCE: POOLING CONSULTATION**

The Panel and Board received a report from the Director of Corporate Operations (Item 14 in the Minute Book) to share a draft response to the Government consultation: Next steps on investments. [SUMMARY OF AN EXEMPT MINUTE]

163. **INVESTMENTS - INVESTMENT UPDATE**

The Panel and Board received a report from the Director of Corporate Operations (Item 15 in the Minute Book) updating the Panel and Board on the Fund’s investments. [SUMMARY OF AN EXEMPT MINUTE]

164. **INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE**

The Panel and Board received a report from the Director of Corporate Operations (Item 16 in the Minute Book) updating the Panel and Board on the Fund’s alternative investments. [SUMMARY OF AN EXEMPT MINUTE]

Chairman, 12 December 2023

HAMPSHIRE COUNTY COUNCIL

Decision Report

Committee:	Audit Committee
Date:	7 March 2024
Title:	Audit Committee Review
Report From:	Deputy Chief Executive and Director of Corporate Operations

Contact name: David Kelly

Email: David.Kelly@hants.gov.uk

Purpose of this Report

1. The purpose of this Report is to advise the Audit Committee on the results of a review of the Audit Committee's working practices in the light of recent guidance issued by CIPFA and the commitment in the Annual Governance Statement 2022-2023 to review the Audit Committee's Terms of Reference.

Recommendations

2. That the Audit Committee notes and considers the guidance issued by CIPFA in relation to revised Terms of Reference for the audit committees discussed in Paragraphs 10-19.

3. Notes and considers CIPFA's guidance on appointing two co-opted independent members to the Audit Committee and on the ideal size of audit committees.

4. That the presentation of an Annual Report from the Audit Committee to the County Council is approved with the first Report to be submitted to the County Council in September 2024.

5. That the new approach to training and development set out in paragraphs 23-29 is approved.

6. That the arrangements for the Chairman and Vice Chairman to meet in private with the Chief Internal Auditor and the external auditor as set out in Paragraphs 30-32 are approved.

Executive Summary

7. The Monitoring Officer, the Head of Finance, the Chief Internal Auditor and the Deputy Director of People and Organisation have conducted a review of the Audit Committee based on the principles set out in the 2022 CIPFA Position Statement attached at exempt Appendix 1

8. The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It has been prepared in consultation with sector representatives. CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

9. That review highlighted areas where CIPFA guidance indicates that the practice of the Audit Committee can be improved, and these are summarised below and dealt with in more detail in the following sections of this Report:
   - A possible review of the Audit Committee's Terms of Reference to take account of recommendations by CIPFA including the possible recruitment of two co-opted independent members to sit on the Audit Committee to add external perspective and expertise to the work of the Committee.
   - The presentation of an annual report on the Audit Committee's work to the Full Council reporting on how the Committee has complied with the CIPFA Position Statement 2022, the results of an annual evaluation of the Committee's work and how it has fulfilled its Terms of Reference.
   - A skills needs assessment to identify areas for development for the Committee members along with a structured on-going training plan and to identify if there's any skills gap that can be addressed in the recruitment of the co-opted independent members.
   - To make arrangements for the Chairman and Vice Chairman of the Committee to meet privately with the Chief Internal Auditor and the County Council's external auditors.

Terms of Reference

10. The existing Terms of Reference of the Audit Committee are attached at Annex 1. Relevant issues from the CIPFA guidance in relation to Terms of Reference are set out below.

11. CIPFA guidance suggests that Audit Committees should be advisory committees and that final decision making should be taken at the Full Council. However, at Hampshire the Audit Committee provides a key role in approving

the County Council's Statement of Accounts and Annual Governance Statement and it would not be able to do this if constituted as an advisory committee. Most Council audit committees are decision making committees for this reason.

12. CIPFA also recommends that an audit committee of no more than 8 Members should be established as this allows sufficient breadth of experience, Independence and accountability but is small enough to allow the training and development of a dedicated group. This would mean for Hampshire, if independent members are appointed, 6 Elected Members and two non-voting Co-opted Independent Members.

13. In sectors outside local government, it is typical for audit committees to have fewer than six members. Among local authorities, there is a range of practice, including some committees that exceed ten members. In the sector, it can be harder to achieve the depth of knowledge and experience that is desirable with a small number, but equally it can be difficult to provide training and development for a large group.

14. A co-opted independent member is a committee member who is not an elected representative but recruited to join a committee. The objective of including such members is to increase the knowledge and experience base of a committee, reinforcing its independence. Inclusion of independent members is a legislative requirement for authorities in Wales and for combined authorities in England.

15. While it is not a legislative requirement for the County Council to have independent members on its Audit Committee CIPFA recommends the committee includes two co-opted independent members. The CIPFA guidance follows the Government's response (in December 2020) to the Redmond Review into the oversight of local audit and the transparency of local authority financial reporting. The Government confirmed its support for the appointment of at least one independent member to audit committees.

16. The reasons for CIPFA's recommendation are as follows:

    - To supplement the knowledge and experience of elected representatives in specific areas, such as audit or financial reporting.

    - To provide continuity outside the political cycle.

    - To help achieve a non-political focus on governance, risk and control matters.

- Having two co-opted independent members rather than one allows recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the Committee.

- Having two co-opted independent members shows a commitment to supporting and investing in the Committee.

17. The role of a co-opted member of the committee would be the same as for an elected representative who is a committee member. The only substantial difference would be that an independent member could not vote although they could, of course, contribute to the discussions prior to the formal decision.

18. The appointment of co-opted independent members would require a change to the Audit Committee's Terms of Reference and consequently a change to the Constitution. This would mean that further reports would be required to Cabinet and to the County Council to implement this change if it is taken forward.

19. In addition, the co-opted independent members would have to be recruited and consequential changes would have to be made to the Member's Allowance Scheme. If it is decided to appoint Independent Members, then the process for their appointment and the timing of their appointment will have to be considered.

Annual Report

20. CIPFA recommends that the Audit Committee should be held to account regularly by those charged with governance which at the County Council is the Full Council. Accountability should cover:

    20.1. whether the committee has fulfilled its agreed terms of reference

    20.2. whether the committee has adopted recommended practice

    20.3. whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities

    20.4. whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review

    20.5. what impact the committee has on the improvement of governance, risk and control arrangements within the authority.

21. It is therefore recommended that the Audit Committee should prepare an annual report that provides assurance to Full Council that it fulfils its purpose and can demonstrate its impact. This is a key output of the Audit Committee.

22. Suggested content for the Report is set out below.

    22.1. The report should briefly outline the extent to which the Audit Committee follows the CIPFA Position Statement in the following areas:

        a) The size of the committee, structure and composition, including the number of independent members.

        b) Reporting line and independence from other committees.

        c) Whether its terms of reference include all the core functions of the committee.

    22.2. Results of the committee's annual evaluation of its effectiveness and assurance over key indicators should be reported. There should be disclosure over areas where the committee has concerns (which could link to the action plan in the Annual Governance Statement 'AGS')) and a statement of what the Audit Committee has done to escalate their concerns or make recommendations.

    22.3. The report should summarise how the Audit Committee has fulfilled its Terms of Reference and the key issues escalated to the Corporate Management Team or other committees during the year.

    22.4. The report should summarise the development work that will support the committee members, e.g. training.

    22.5. The report should be timed to support the annual review of governance and preparation of the AGS. This enables the committee to take stock of the assurances it has received and the extent to which its own performance has contributed to governance arrangements.

    22.6. The Audit Committee should consider how it can improve understanding of its work and raise its profile among other elected members. By improving understanding and engagement, the influence of the committee is likely to grow.

Skills Assessment and Training

23. The review (see paragraph 7) recognised the need for a skills needs assessment to identify areas for development for the Committee members along with a structured on-going training plan. Whilst some regular training and support arrangements have been in place to date, this could be improved by being more targeted in line with the outcome of a skills needs assessment and by ensuring closer alignment with the Audit Committee core functions and specific responsibilities.

24. In order to understand training & development requirements, a skills & needs self-assessment framework will be developed for Audit Committee members to undertake, with the results shaping a tailored programme of training courses, support, briefings and resources. The self-assessment will be repeated each year, to inform subsequent training needs and evidence the assessment and reasoning as to key or new areas of focus.

25. A structured on-going programme will be designed around the Core Functions (see a. to g. below), providing access to learning opportunities, including resource materials, to develop and enhance Audit Committee skills and knowledge. This will ensure the effective fulfilment of their roles within this dedicated and focussed group.

    a. Governance arrangements
    b. Risk management arrangements
    c. Internal control arrangements, including:
        i. Financial management
        ii. Value for Money
        iii. Ethics and Standards
        iv. Counter Fraud and Corruption
    d. Annual Governance Statement
    e. Financial reporting
    f. Assurance Framework
    g. Internal and external audit

26. Where appropriate, there will also be links with the Member Development Group training plan, as well as training sessions run internally by relevant boards e.g. Pension Fund Panel and Board. Additionally, any agreed mandatory training will be included (e.g. Data Protection and Prevent), along with other organisational wide personal development courses that will be encouraged where necessary (e.g. 'chairing meetings').

27. The expected method of delivery is likely to be a combination of virtual and in-person and include both internal and external (e.g. CIPFA) opportunities for learning. Where appropriate, attendance at networks and forums will be encouraged, to share good practice.

28. For new and co-opted independent members, the programme is likely to include additional training or support, aligned with the committee's Terms of Reference, to help them integrate into the Audit Committee and become more familiar with the Council's structure and process.

29. It is anticipated that this structured training program would commence in the Autumn of 2025.

Arrangements for Meetings with Internal and External Audit

30. CIPFA guidance specifies that:

‘It is standard practice for the external auditors and head of internal audit to have direct access the Audit Committee, helping to reinforce the independence of the auditors and to maintain their professional standards. It also reinforces the independence of the Audit Committee.

As a minimum, there should be a facility for a private meeting once a year, but they should be made available on request. To support transparency, the chair should report that a private meeting has taken place at the next audit committee meeting and summarise the topics discussed.’

31. The arrangement that internal audit reports functionally to the Audit Committee and has direct access to members is acknowledged and clearly articulated within the Internal Audit Charter and is already established as part of the governance framework.

32. Historically, the Chief Internal Auditor has met in private session with the Chairman of the Audit Committee in accordance with CIPFA guidance, however, such meetings have not convened for a period of time, and it would be opportune to extend the offer of private meetings with both the Chief Internal Auditor and external audit to reestablish this principle of good governance.

Consultation and Equalities

33. There are no equality impacts deriving from the Recommendations set out in this Report.

Climate Change Impact Assessment

34. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council’s climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

35. The carbon mitigation tool and/or climate change adaptation tool were not applicable because the decision is administrative in nature.

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 good governance of the County Council**

Other Significant Links

Links to previous Member decisions:	
Title None	Date
Direct links to specific legislation or Government Directives	
Title CIPFA Audit Committees-Practical Guidance for local authorities and police	Date **2022**

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 disproportionally low.

2. **Equalities Impact Assessment:**

2.1. No equality impacts have been identified in relation to the Recommendations in this Report.

Annex 1:

Part 1: Chapter 7

The Audit Committee

1. **The Audit Committee**

   The County Council has set up an Audit Committee to monitor, review and report on the governance arrangements of the County Council.

2. **Composition**

   The Audit Committee is composed of nine members. The Chairman may not be a member of the Executive.

3. **Role and function**

   The Audit Committee will monitor, review and report on the way in which governance is exercised within the County Council with regard to:

3.1. **Audit Activity**

3.1.1. To receive and consider reports from the Chief Financial Officer on internal strategy, planning and delivery, including in particular the Chief Internal Auditor's annual report and opinion;

3.1.2. To make recommendations to the County Council on the appointment of the County Council's External Auditor in accordance with the Local Audit and Accountability Act 2014 and regulations made thereunder.

3.1.3. To receive and consider reports from the external auditor and any national agencies as may report on the County Council's performance, inspection or audit.

3.2. **Regulatory Framework**

3.2.1. To monitor the roles, processes and behaviour that affect the way that governance is exercised within the County Council and in particular the adoption, review and amendment of the Corporate Governance Framework for the County Council;

3.2.2. To review and consider the reports from the Chief Financial Officer on the treasury management function, including the treasury management strategy, half-yearly report and annual report;

3.2.3. To consider the effect of the County Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, seeking assurances as necessary that action is being taken on risk-related areas identified by auditors and inspectors;

3.2.4. To receive and form a view on internal assurances of governance practice and to be satisfied that the County Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;

3.2.5. To consider the County Council's compliance with its own and other published standards and controls;

3.2.6. To make recommendations to the County Council for the making or amending of financial regulations, standing orders related to contracts or regulations related to the conduct of the County Council's business.

3.3. **Accounts**

3.3.1. To receive and consider audit reports relating to the Pension Fund Panel and Board;

3.3.2. To approve the County Council's Statement of Accounts.

3.4. **Elections**

3.4.1. Functions relating to elections as specified in Schedule 1 Paragraph D of the Functions Regulations.

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