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AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL  
held virtually on Thursday, 23rd July, 2020

Chairman:  
Councillor Keith Evans

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

\*Present

## 163. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillor Keith Evans. Councillor Stephen Philpott was in attendance as the Conservative substitute.

## 164. **DECLARATIONS OF INTEREST**

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

## 165. **MINUTES OF PREVIOUS MEETING HELD ON 20 FEBRUARY 2020**

The minutes of the meeting held on 20 February 2020 were agreed as a correct record.

## 166. **DEPUTATIONS**

No questions or deputations were received by the Committee on this occasion.

## 167. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements.

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

Members received a report of the Director of Culture, Communities and Business Services and Director of Transformation and Governance – Corporate Services, outlining the County Council’s use of its investigatory powers during the previous financial year.

**RESOLVED:**

That:

- The Audit Committee notes the contents of this report and that the County Council’s surveillance powers continue to be exercised appropriately and proportionately.
- The Audit Committee considers the County Council’s use of surveillance powers for the previous financial year and provides the Executive Member for Policy and Resources with assurance that the County Council is operating its powers in a lawful and proportionate manner. Furthermore, the Audit Committee assures him of the continued use of surveillance powers by the County Council.

**169. EXTERNAL AUDIT PLANNING REPORT UPDATE 2019/20**

Members received an update on the External Audit Planning Report for 2019/20, with changes to the audit plan and approach highlighted, resulting from risks arising from the Covid-19 pandemic. Members heard that:

- Additional risks had been identified as a result of the Covid-19 pandemic relating to the valuation of property, which included an expectation of a decrease in rental incomes and inclusion of a materiality uncertainty clause, which Members heard was in-line with national practice. Members further heard that that experts had been engaged in assessing property values as part of the audit plan. Whilst valuation of property was already noted as an inherent risk in the plan, as a result of the impact of Covid-19 this had been increased to a significant risk.
- No further increased risks had been identified by the external auditors.
- It was expected that volatility in markets, resulting from the Covid-19 pandemic would have an impact on the Pension Fund and this was noted within the report.
- Previously the adoption of the IFRS16 standard was reported as an increased risk, however with the deferral of this adoption to 2021/22 the risk would be moved to next year’s audit.
- Materiality was reconsidered and no changes to levels were identified resultant from the Covid-19 pandemic.
- A list of additional audit procedures to be performed was presented within the report. It was highlighted that the Audit was being undertaken fully remotely and it was considered that this approach was working well, with the external auditors able to watch the finance team running reports using video calling facilities. The auditors remarked that the finance team had been very responsive to questions.

- Other areas which were identified as potentially being impacted by the pandemic included increase in amounts written off, changes to staff working patterns, increased sickness and centralised government funding.
- In accordance with national audit timeframes, the external audit annual report was expected to be brought forth to the meeting of the Audit Committee in September for agreement.

In response to Member's questions it was heard that the colour coding used within the report highlighted new risks identified in year as red, risks which were unchanged in yellow and a reduction in risk as green.

**RESOLVED:**

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

**170. INTERNAL AUDIT ANNUAL REPORT AND OPINION 2019/20**

Members received a report from the Deputy Chief Executive and Director of Corporate Resources presenting the Internal Audit Annual Report and Opinion for 2019/20.

Members heard that:

- Reviews scheduled for Q4 had been delayed due to the impact of the Covid-19 pandemic, which had changed service availability and required moving to a virtual auditing model. Since publication of the report most of those reviews had now moved to draft status.
- Observations from the limited assurance reviews had identified areas for improvement in data quality and retention in the management of guardianships, use of agency staff and the approved mental health professional reviews.
- The outcome of the latest national fraud initiative exercise had identified £250k savings.
- The Head of Internal Audit considered the report to be a positive and demonstrated continued confidence in the governance framework.

In response to Members questions it was heard that:

- Managers operating across the County Council were encouraged to communicate regularly to discuss any identified common issues or risks identified. Such risks were a matter for discussion at regular internal audit management reviews with consistent messaging around risks co-ordinated across the organisation.
- £136,000 recoverable care payments were reported through the national fraud initiative, which had compared a number of systems to identify where residents may have deceased in a care setting but payments had continued to be paid by the County Council for a short period. Members heard there were existing controls and checks within the Council which test and identify such issues, and many of the payments would have

already been identified and recovered by the County before the outcome of the reporting from the national fraud initiative, however still need to be credited to the national audit.

**RESOLVED:**

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

**171. INTERNAL AUDIT PLAN 2020/21**

Members received a report from the Deputy Chief Executive and Director of Corporate Resources presenting the Internal Audit Plan for 2020/21.

Members heard that:

- The Internal Audit Plan had assigned a pool of days for assurance work in respect of the Covid-19 pandemic and had identified the most significant areas for consideration resulting from the outbreak. This would sit alongside the business as usual needs of the Council and would remain a fluid plan to react, as needed, to any future changes.

In response to Members questions it was heard that:

- The recovery of monies, for example from Covid-19 grants, was not an internal audit responsibility, however internal audit would assure that monies were properly accounted for. Concerns were raised by Members of the Committee as to potential shortfalls in central funding to meet all of the additional costs incurred to respond to the Covid-19 pandemic.

**RESOLVED:**

That the Audit Committee approves the Internal Audit Plan 2020-21 and the Fraud Plan 2020 – 2021.

**172. INTERNAL AUDIT CHARTER 2020/21**

Members received a report from the Deputy Chief Executive and Director of Corporate Resources presenting the Internal Audit Charter for 2020/21.

Members heard that there had been no changes to the charter from the previous financial year.

**RESOLVED:**

That the Audit Committee approves the Internal Audit Charter 2020 – 2021.

### 173. **ANNUAL GOVERNANCE REPORT**

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources and Director of Transformation and Governance and presenting the Annual Governance Statement.

Members were made aware of a recommendation made by the Committee on Standards in Public Life, as requested by the Conduct Advisory Panel, to provide details of joint ventures operated by the County Council, two of which were noted within the report. It was also observed that the action plan for the coming year had reflected requirements in response to the Covid-19 pandemic.

In response to questions from Members it was heard that:

- The County Council had made significant changes to its governance arrangements, for example to enable the holding of meetings remotely, and that the success of these changes and the governance response to the pandemic would be reported to the committee in the next annual governance statement.
- Whilst the report hadn't identified any actions which wouldn't have otherwise happened as a matter of good governance and control, the annual reporting process was considered good practice and a valuable aid in setting and meeting objectives for the year.
- Generally, whole staff surveys were undertaken once annually, with an additional survey recently regarding working arrangements since the outbreak of Covid-19. Surveys were managed internally at a very low cost as the necessary expertise to do so already existed within the organisation.

### **RESOLVED**

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

### 174. **ANNUAL TREASURY OUTTURN REPORT 2019/20**

The Committee received the report of the Deputy Chief Executive and Director of Corporate Resources giving details on treasury activity during 2019/20.

Members heard that:

- Low interest rates had continued throughout the year with economic challenges brought forth through uncertainty relating to Brexit and the Covid-19 outbreak, resulting in significant impact to financial markets in March 2020.
- The Council's balance sheet position showed an overall fall in net investment of £25m. It was noted that in year there had been a small increase in the capital financing requirement, maturing of some borrowing and a planned decrease in reserves to fund transformation activity.
- Hampshire had responded to the Treasury's consultation on the future of PWLB.

- With interest rates remaining low, Arlingclose had advised continuation of the internal borrowing strategy.
- A saving of £9m over 3 years was expected to be made as a result of the early payment of pension fund contributions.
- Internally managed investments had delivered positive performance in comparison with other authorities, although the rate of return had fallen in year due to the impact of the bank rate cuts in March in response to the coronavirus.
- There had been a fall in year of approximately £22m (12.8%) in capital values, however the financial loss would only be realised if assets were sold.
- Income returns from pooled funds had continued to demonstrate strong performance, delivering an £8.2m contribution to the revenue budget.

### **RESOLVED:**

The Audit Committee note the recommendations reported to Cabinet and Full Council.

That the outturn review of treasury management activities is noted.

Cllr Mocatta left the meeting at this point.

### **175. HIGHER YIELDING STRATEGY UPDATE**

Members received a report of the Deputy Chief Executive and Director of Corporate Resources providing an update on performance against the higher yielding strategy and ongoing review and scrutiny of these investments, as requested at the previous meeting of the Audit Committee.

Members heard that the Council had sought to build up a diversified portfolio of investments, as recommended by Arlingclose, targeting a yield of 4% while complying with the CIPFA Code and without taking undue risk. It was further heard that:

- Total investments to date in higher yielding investments had been £201m.
- Whilst the Schroders Income Maximiser fund was identified as a relatively poor performer over one, three and five years in terms of capital returns, the income return had been strong and benefited the Council's revenue budget.
- The capital position for the Council's pooled fund investments was also noted to have improved since March and the average 4.57% per annum income return since purchase was much greater than the return on cash investments over the same period.
- The Council anticipated short term performance to fluctuate but had invested in pooled funds with the intention of holding these investments for at least the medium term to negate any falls in value. The Council's pooled funds were delivering significantly higher yields than cash and continued to be recommended by the Council's treasury management advisors Arlingclose.

In response to Members questions it was heard that:

- Although £235m was earmarked for higher yielding investment in 2019, the full amount had not yet been invested due to the consideration of the appropriate time to do so and the future earmarked investment in the Manydown project.
- Dividends from UK companies were expected to be significantly down during 2020 following the Covid-19 outbreak and property valuations were also likely to be affected. The Council's yield from pooled funds was expected to be lower than in previous years and it was difficult to predict when yields would return to their previous levels, as it would depend upon the wider economic recovery.

#### 176. **RELATED PARTY TRANSACTIONS DISCLOSURE 2019/20 UPDATE**

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources regarding the return of related party declarations by elected members.

The Committee discussed the procedure followed in seeking declarations from the two Councillors, as outlined within the report, who had yet to return their 2019/20 related party declaration. It was highlighted that the annual process was both an audit requirement and an important part of the overall governance in ensuring decisions were made appropriately and transparently.

In response to Members questions it was heard that:

- The related party transactions disclosure was an audit requirement which every County Councillor and Chief Officer was required to undertake. The Council had sought to make the process as efficient as possible and the vast proportion of Officers and Councillors had responded very quickly.
- Those who had not responded had been emailed on four occasions, twice on behalf of the Deputy Chief Executive and Director of Corporate Resources, once by the Council's Monitoring Officer and finally by the Chairman of the Audit Committee. It was also understood that Group Leaders had approached the two Members by phone.

#### **RESOLVED:**

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

Cllr House left the meeting at this point. Cllr Tennant joined the meeting as the Liberal Democrat deputy.

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

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 13 December 2019.

**178. 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.

**179. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 13 DECEMBER 2019 (EXEMPT)**

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 13 December 2019.

**180. CORPORATE RISK REGISTER AND APPROACH TO COVID-19 RISK**

The Committee considered the exempt report of the Director of Transformation and Governance providing an overview of and update against the key aspects of the County Council's risk management arrangements.

(Summary of an exempt minute)

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Chairman, 30 September 2020

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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