

NOTICE OF MEETING

| | |
|----------------------|------------------------------------|
| Meeting | Audit Committee |
| Date and Time | Monday, 26th July, 2021 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. The meeting may also be recorded and broadcast by the press and members of the public – please see the Filming Protocol available on the County Council's website.

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

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 4 MARCH 2021 (Pages 5 - 10)

To confirm the minutes of the previous meeting.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

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

To receive a report on County Council's use of its investigatory powers during the previous financial year.

7. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 12 FEBRUARY 2021 (LESS EXEMPT) (Pages 21 - 32)

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 12 February 2021.

8. EXTERNAL AUDIT PLANNING REPORT 2020/21 (Pages 33 - 114)

To receive the external audit planning reports for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2021.

9. INTERNAL AUDIT PLANNING REPORT AND OPINION 2020/21 (Pages 115 - 134)

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

10. INTERNAL AUDIT CHARTER 2021/22 (Pages 135 - 148)

To consider a report of the Director of Corporate Operations presenting the Internal Audit Charter 2021/22 in accordance with the requirements of the Public Sector Internal Audit Standards.

11. INTERNAL AUDIT PLAN 2021/22 (Pages 149 - 170)

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

12. ANNUAL TREASURY OUTTURN REPORT 2021/21 (Pages 171 - 190)

To consider a report of the Director of Corporate Operations giving details on treasury activity during 2020/21.

13. EXCLUSION OF THE PRESS AND PUBLIC

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

14. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 12 FEBRUARY 2021 (EXEMPT) (Pages 191 - 198)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 12 February 2021.

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.

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Public Document Pack Agenda Item 3

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL
held at the castle, Winchester on Thursday, 4th March, 2021

Chairman: Councillor Alexis McEvoy

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

205. APOLOGIES FOR ABSENCE

Members were welcomed to the meeting by Cllr Alexis McEvoy who, in the absence of an appointed Chairman, would be acting as chair for the meeting.

All Members were noted to be present at the meeting. Cllr Zilliah Brooks was in attendance as the Conservative substitute, due to a vacancy on the committee.

206. 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.

No declarations were made at this point in the meeting.

207. MINUTES OF PREVIOUS MEETING HELD ON 17 DECEMBER 2020

The minutes of the meeting held on 17 December 2020 were agreed as a correct record and signed by the Chairman.

Further to item 195 of the minutes, the Deputy Chief Executive and Director of Corporate Resources advised members that the 2019/20 Annual Statement of Accounts had been signed off by the external auditors by the end of January, as expected. This had included an unqualified opinion on both the accounts and value for money position. Members further heard that there had been no adverse commentary regarding the County Council's position as a going concern through to March 2022.

208. **DEPUTATIONS**

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

209. **CHAIRMAN'S ANNOUNCEMENTS**

With sadness the Chairman noted the passing of Councillor Keith Evans, who had served as Chairman of the Audit Committee, from its inception in June 2009 until his death in December 2020.

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

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

It was heard that surveillance powers had been used twice thus far during 2020/21. Members heard that the use of powers related to 28 specific notices for access to communication data, linked to rogue trading, and had been seeking the identity of the owners of multiple websites and or email accounts.

In response to Members questions it was noted that quarterly reporting of this data to the Audit Committee was a requirement of Home Office Regulations

RESOLVED:

That the Audit Committee receives and notes the data regarding the County Council's use of surveillance powers as attached at Appendix 1 to the report.

211. **ANNUAL EXTERNAL AUDIT LETTER FOR THE YEAR ENDING 31 MARCH 2020 - HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND**

Cllr House declared a non-pecuniary interest in the following item, as a Member of the Board of Public Sector Audit Appointments (PSAA).

The Committee received the external auditors letter for the year ending 31 March 2020.

The auditor highlighted to Members that:

- As set out within the report, an unqualified opinion was given for the Statement of Accounts for 2020 for both Hampshire County Council and the Hampshire Pension Fund, as well as an unqualified conclusion in respect of the County Council's value for money.
- Section seven of the report set out the fee position for both Hampshire County Council and the Pension Fund. It was noted that the Auditors had made a request for an amendment to the scale fee. In the auditors view it was appropriate to rebase the scale fee as audit fees nationally were considered to be divorced from the level of risk and work required for

public sector audits. Members heard that the fees would be subject to the PSAA's final decision, however both the County Council and Ernst and Young had taken a constructive approach in airing their respective views which had maintained the existing positive working relationship.

In response to Members questions it was heard that:

- The final Statement of Accounts are signed off each year by the external auditors, working where possible to the County Council's preferred deadline, which was set as 30 November for the 2020 accounts. It was noted that there had been a slight delay in signing off the accounts for 2019/20 due to a new requirement, in response to the pandemic, to provide detailed cash flow figures to enable the auditors to assess the going concern. This was a requirement of all organisation across the country and it was noted by the PSAA that circa 60% of local authorities accounts were outstanding sign off as at 30 November. Data needed to be presented in a format not used before and the County Council were able to provide this by mid-December, with the audit resolved quickly thereafter. Members were invited to note that the County Council correctly published its accounts as at 30 November without the audit opinion, in accordance with national requirements, and republished this once the audit opinion was available.
- The approximate cost for Hampshire County Council's audit fees was proposed at just over £200k, which included a £56k non-audit fee for controls for the Integrated Business Centre. The auditors noted that the scale fee of £89k was set four years ago, and in their opinion was not a sustainable fee for an organisation the size of Hampshire County Council. Therefore they had proposed an increase of £40k, subject to PSAA approval. It was heard that the County Councils view was that fees should remain at the level agreed when the contract was tendered and Members heard that a report would be submitted to the PSAA in support of the County's position. Whilst it was recognised that audit firms may have met additional demands resulting from the pandemic, savings should also have been generated during the year from reduced travel cost etc.

RESOLVED:

That the Audit Committee receives and notes the Annual Audit Letter for the year ending 31 March 2020.

212. TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22 TO 2023/24

The Committee considered a report of the Deputy Chief Executive and Director of Corporate Resources presenting the Treasury Management Strategy Statement for 2021/22 to 2023/24.

Members heard that:

- It was anticipated that the Council would continue to hold significant investment balances, facilitating the use of internal borrowing rather than

any new external borrowing to meet any capital programme needs where necessary.

- County Council had agreed to increase the limit for higher-yielding investment to £250m as part of the Capital and Investment Strategy. Members heard that £194m of this allocation had been invested as at the end of December, with a further £6m invested on behalf of Thames Basin Heath, where the County Council is the administrative body.
- The limit on investment in any single organisation had been set at £70m, which had increased from the previous year as investment balances were anticipated to be higher, as a result of the three year upfront payment made for pension contributions the previous April.
- Arlingclose had recommended removing the upper limit of 50% of total investment balances that the Council could hold in Money Market Funds but that the Council should hold liquid investments across at least four counterparties, reducing the risk of monies not being accessible if required. Whilst this requirement was newly included within the Council's strategy, it was felt to have a limited impact on day to day business as the Council had always sought to hold a diversified investment portfolio to mitigate risks.

In response to Members questions it was heard that:

- The Council managed all treasury management investments in-line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code and had a legal responsibility to take account of the security and liquidity of investments ahead of seeking yield. This was alongside considerations as a responsible investor. When recommending pooled funds Arlingclose did so after undertaking due diligence of the funds and also considered how the funds approached Environmental, Social and Governance (ESG) issues. All the pooled funds in which the Council had invested had Responsible Investment policies and were signatories to the UN Principles for Responsible Investment.

RESOLVED:

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

- That the Treasury Management Strategy for 2021/22 (and the remainder of 2020/21) be approved.
- That an increase to the allocation targeting higher yields from £235m to £250m partly to reflect the investments taken out on behalf of Thames Basin Heath and to provide extra flexibility given the added risk of negative interest rates at the short term end of the market be approved.
- That authority is delegated to the Deputy Chief Executive and Director of Corporate Resources to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

213. POLICY UPDATE - WHISTLE-BLOWING POLICY

Members received a report of the Deputy Chief Executive and Director of Corporate Resources detailing an update to the Whistle-Blowing Policy, following feedback at the previous meeting of the Audit Committee. Members heard that further detail had been included within the guidance for Members, should they be approached regarding a whistle-blowing matter. It was further heard that Members would be given guidance on the use of the Whistle-Blowing policy, during governance briefings planned following the election.

RESOLVED:

The Committee note the amendment to the Whistleblowing Policy and the inclusion of Whistleblowing within Governance Briefings following the election.

214. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 4 DECEMBER 2020 (LESS EXEMPT)

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 4 December 2020.

215. EXCLUSION OF THE PRESS AND PUBLIC

The press and public were excluded from the meeting during the following items of business, as it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would have been disclosure to them of exempt information within Paragraphs 3 and 5 of Part I Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information, for the reasons set out in the minutes.

216. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 4 DECEMBER 2020 (EXEMPT)

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 4 December 2020.

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HAMPSHIRE COUNTY COUNCIL

Report

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| Committee/Panel: | Audit Committee |
| Date: | 26 July 2021 |
| Title: | Information Compliance - Use of Regulated Investigatory Powers |
| Report From: | Director of Culture, Communities and Business Services and Chief Executive – Corporate Services |

Contact name: Julie Chambers – Trading Standards Manager and Peter Andrews – Head of Information Governance

Tel: 0370 779 1365 **Email:** julie.chambers@hants.gov.uk
peter.andrews@hants.gov.uk

1. Summary

- 1.1. The purpose of this paper is to provide the Audit Committee with information on the instances that the County Council has used its investigatory powers in the last financial year, as required by the Code of Practice issued by the Home Office. It is also to provide assurance that the County Council uses its surveillance powers in a lawful and proportionate way.
- 1.2. This report confirms that there has been no uses of surveillance powers and three applications for Communications Data in 20120-21. Compared to 2019-20, this is a decrease in surveillance powers, and a slight increase in applications for Communications Data.
- 1.3. The level of use of surveillance powers for 2020-21 is very low, continuing the trend seen in recent years.

2. Contextual information

- 2.1. The County Council operates a strict control policy which ensures that only authorised surveillance takes place in accordance with the Regulation of Investigatory Powers Act 2000 (RIPA).
- 2.2. In July 2020 a report was presented to the Committee detailing the County Council's use of surveillance powers in 2019-2020. This report (in addition to any quarterly reports) presents information for the period 2020-2021. The last quarterly report to this Committee was 4 March 2021.
- 2.3. All applications for covert surveillance activity are coordinated through the County Council's Trading Standards Service as per the current County Council's RIPA policy. Only one senior officer within that service can act as

authorising officer for the whole of the County Council. The responsibility for the governance of the Council's use of surveillance powers rests with the Council's Monitoring Officer.

- 2.4. In addition, there is a legal requirement for judicial approval, through a magistrate, of all authorisations under RIPA obtained by local authorities in accordance with the provisions of the Protection of Freedoms Act 2012. Since 1 November 2012 where Hampshire County Council has sought the required judicial approval of surveillance activity, it has been granted.
- 2.5. The County Council's use of surveillance powers is regularly subject to external inspection by the Investigatory Powers Commissioner's Office. This Office was formed in September 2017 as a result of the introduction of the Investigatory Powers Act 2016, and is an amalgamation of three separate commissioners. These were the Office of the Surveillance Commissioner, the Interception of Communication Commissioner's Office, and the Intelligence Services Commissioner. In his regulatory function, the Assistant Surveillance Commissioner reviews the County Council's use of directed surveillance, covert human intelligence source (CHIS), and CCTV systems under the Regulation of Investigatory Powers Act. The last inspection by the Investigatory Powers Commissioner's Officer, undertaken as a remote desktop inspection as a result of the COVID-19 pandemic, occurred in May 2021. It concluded that whilst Hampshire County Council is "not a prolific user of the powers, it has used them to very good effect, and in compliance terms, to a very high standard".
- 2.6. The Trading Standards Service has adopted the Intelligence Operating Model (IOM) as a means of identifying suspicious activity for further investigation and, thus ensuring resources are used efficiently. The introduction of the IOM has contributed towards the decline in recent surveillance activity as the nature of investigations identified have not warranted such techniques being used. This is subject to change depending upon the nature of the investigations that are identified through the use of the IOM.
- 2.7. A number of changes to the way that local authorities are permitted to operate the powers within RIPA were made as part of the Protection of Freedoms Act, and those changes came into force on 1 November 2012. These restrict the use of such powers to the investigation of serious crime. This did not affect the County Council's use of these powers as in practice it already restricted its use of surveillance to these areas, for example, the sale of counterfeit goods, and alcohol and cigarettes to children.
- 2.8. Officers of the County Council's Trading Standards Service ensure that surveillance efforts are targeted towards protecting those who are being cheated by businesses that trade fraudulently, or unfairly treated by businesses that act with gross negligence towards their customers; particularly young, vulnerable or elderly customers. Such work is often done in response to complaints from members of the public, and in conjunction with the Police and UK Border Agency.
- 2.9. It should be noted that the use of surveillance is not the totality of any criminal investigation, but a small part of it, and that criminal investigations may not

complete their passage through the criminal court process for many months, if not years after the surveillance activity has ceased.

2.10. The principal reasons for the use of surveillance are for prevention and detection of crime and not for criminal proceedings. As such, conviction rates, although excellent, are not the only measure of success (different methods of disposal such as letters of written warning, Simple Cautions and website takedowns are also justifiable indicators of RIPA usage).

2.11. In the 10-year period since 2011 surveillance activities have resulted custodial sentences totalling 113 years and 2 months being handed down, along with orders made under the Proceeds of Crime Act 2002 to repay £550,000 of criminal benefit obtained.

2.12. The approvals for surveillance for the period of April 2020 to March 2021 are shown in Appendix 1.

3. Value for Money

3.1. In the period of April 2020 to March 2021 all RIPA activity has been conducted by the Trading Standards Service which operates the IOM as a means of directing resources towards area of most harm and detriment being identified. The appropriate methodology for dealing with such investigations is individually assessed according to the circumstances and may utilise a variety of enforcement techniques; of which one may be surveillance. Having a range of enforcement techniques available ensures that only those which are necessary and proportionate are used and, accordingly are not used just because they can. Where there is no need to use surveillance, it is not conducted.

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

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

4. Continued Use of Surveillance Powers

4.1. In order to continue to be able to use its surveillance powers under RIPA, the County Council must have a formal approved Policy on its use. This Policy must be reviewed and approved on an annual basis. The County Council's Policy on Surveillance (2020-2021) was presented and approved by the

Executive Member for Policy and Resources in October 2020. A Policy for use in 2021/22 will be presented to the Executive Member for Policy and Resources in September 2021.

5. Use of Camera Systems

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

6. Consultation and Equalities

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

7. Finance

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

8. Performance

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

9. Conclusions

9.1. The County Council recognises that the use of covert surveillance as part of its investigatory activities may cause concern to the public and that it has a responsibility to ensure that its surveillance powers continue to be exercised appropriately and proportionately. It therefore has a robust process for authorisation and monitoring of all surveillance activities and only uses them in relation to the prevention and detection of crime; and where it is lawful, necessary and proportionate to do so.

9.2. Additionally, any activities are reviewed, and the Policy on Surveillance is renewed every year, which is approved by the Executive Member for Policy and Resources.

10. Recommendation

10.1. That the Audit Committee notes the contents of this report and that the County Council's surveillance powers continue to be exercised appropriately and proportionately.

10.2. The Audit Committee is also invited to consider the County Council's use of surveillance powers for the previous financial year and to provide the Executive Member for Policy and Resources with assurance that the County Council is operating its powers in a lawful and proportionate manner. Furthermore, the Audit Committee is invited to assure him of the continued use of surveillance powers by the County Council.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

| | |
|---|-----|
| Hampshire maintains strong and sustainable economic growth and prosperity: | no |
| People in Hampshire live safe, healthy and independent lives: | yes |
| People in Hampshire enjoy a rich and diverse environment: | no |
| People in Hampshire enjoy being part of strong, inclusive communities: | no |
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|---|-----------------|
| Section 100 D - Local Government Act 1972 - background documents | |
| <p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p> | |
| <u>Document</u> | <u>Location</u> |
| None | |

IMPACT ASSESSMENTS:

11. Equality Duty

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

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

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

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

12. Equalities Impact Assessment:

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

13. Impact on Crime and Disorder:

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

14. Climate Change:

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

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

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

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

APPENDIX 1 - Number of Authorisations by Quarter (1 April 2020 – 31 March 2021)**Direct Surveillance**

| 2020-21 Quarter | Purpose of Surveillance | | | Description of "other" |
|--------------------|----------------------------|--------------------|-------|------------------------|
| | C'feit Goods | Under Age Sales | Other | |
| 1 | 0 | 0 | 0 | |
| 2 | 0 | 0 | 0 | |
| 3 | 0 | 0 | 0 | |
| 4 | 0 | 0 | 0 | |
| Total - | 0 | 0 | 0 | |

**Covert Human Intelligence Source
(CHIS)**

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

Communications Data

| Quarter | Number of Applications | Number of Specific Notices | Offences related to: |
|----------------|------------------------|----------------------------|--------------------------------|
| 1 | 0 | 0 | |
| 2 | 1 | 18 | Doorstep Crime – Rogue Trading |
| 3 | 1 | 10 | Doorstep Crime |
| 4 | 1 | 1 | Intellectual Property Crime |
| Total - | 3 | 29 | |

Definitions:

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

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

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

HAMPSHIRE COUNTY COUNCIL

Report

| | |
|-------------------------|--|
| Committee/Panel: | Audit Committee |
| Date: | 26 July 2021 |
| Title: | Minutes of the Hampshire Pension Fund Panel and Board – 12 February 2021 |
| Report From: | Chief Executive |

Contact name: Caroline Roser

Tel: 0370 779 5280

Email: caroline.rosier@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the minutes from the meeting of the Hampshire Pension Fund Panel and Board which took place on 12 February 2021.
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 disproportionately low.

2. Equalities Impact Assessment:

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

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AT A MEETING of the Hampshire Pension Fund Panel and Board of
HAMPSHIRE COUNTY COUNCIL held at Remote Meeting on Friday, 12th
February, 2021

Chairman:

*Councillor M. Kemp-Gee

Vice-Chairman:

* Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

* C. Carter

* A. Dowden

* A. Gibson

* B. Tennent

* A. Joy

* P. Latham

* J. Glen

Employer Representatives (Co-opted members):

* Councillor C. Corkery (Portsmouth City Council)

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

* Dr L Bartle (University of Portsmouth)

Councillor S. Barnes-Andrews (Southampton City Council, substitute
employer representative)

Scheme Member Representatives (Co-opted members):

* Dr C. Allen (pensioners' representative)

* Mr N. Wood (scheme members representative)

* Ms L. Gowland (deferred members' representative)

* Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:

* C. Dobson

*present

300. **APOLOGIES FOR ABSENCE**

There were no apologies.

301. **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.

Cllr Corkery declared an interest that he was a member of the Trade Union UNISON, particularly in relation to item 11, but that he did not believe this was a prejudicial interest.

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

The minutes of the previous meeting on 4 December were confirmed.

303. **DEPUTATIONS**

In accordance with Standing Order 12, the Panel and Board received a deputation from Miss Kerrie Sinclair representing the Dirty Money campaign group. Miss Sinclair highlighted that last week US Climate Envoy John Carrié said that attitudes of investors towards climate action has to change. Mr Carrié said that it requires a *war like enterprise* to avert the current expectations for temperature increases.

Miss Sinclair pointed out that Hampshire County Council has declared a Climate Emergency, but the Hampshire Pension Fund and the wider ACCESS pool, is not being used to meet this emergency with its full power.

Miss Sinclair said that the Pension Fund should be following the direction of the UN Secretary General for pension funds to adopt specific plans to achieve the net zero carbon emissions goals. This policy is being followed by the UN Net Zero Asset Owner Alliance, which comprises 33 members, including The Church of England and Aviva.

Miss Sinclair believes that the Hampshire Pension Fund should join the Net Zero Asset Owner Alliance to benefit from its expertise in setting decarbonisation targets. The Pension Fund's last reported carbon emissions data may be below the broader index but is still unacceptably high.

As a result the Dirty Money Campaign calls for the Hampshire Pension Fund to:

1. Produce a position statement on managing its portfolios in line with the Paris Agreement and a maximum 1.5 degree climate increase.
2. Create a strategy and timeline to achieve this.
3. Report in plain English with scheme members and consult with and be advised by scheme members on the Pension Fund's Statement of Investment Principles.
4. Call on all members of the ACCESS pool to become members of the Net Zero Asset Owners Alliance.

304. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman asked Andy Lowe to update the committee that Hampshire Pension Services had successfully been chosen by the London Boroughs of Westminster and Hillingdon to provide pensions administration services.

The Chairman asked Andrew Boufflower to provide further details on the recent press stories that the Hampshire Pension Fund had sold part of its holding in Moonpig. The company was held as part of a co-investment in the Pension Fund's Private Equity portfolio, managed by Aberdeen Standard Investments. The company was floated on the London Stock Exchange, which has provided a very positive return for the Pension Fund, which Aberdeen will be able to provide more details on at their next update to the committee.

Cllr Kemp-Gee informed the committee he had attended the Scheme Advisory Board's online seminar, and invited the other members to report back on any virtual training they had attended:

- Cllr Tennent reporting on a report on ESG that he had been sent.
- Cllr Gibson fed back on an investment conference
- Cllr Glen reported that he had attended a Bank of America conference which was relatively positive on the potential outlook for the US economy.

305. **ACCESS MINUTES - 12 NOVEMBER 2020**

The minutes of the ACCESS Joint Committee meeting held on 12 November 2020 were received.

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

The Panel and Board received and noted a report of the Director of Corporate Resources (item 7 in the Minute Book) providing the Pension Fund Panel and Board with the progress of internal audit work for the period ending 31 January 2021. Two of the four audits planned for 2020/21 have concluded, with the audit opinion for both Pension Refunds and Fund Management, Investments and Accounting for Assets, having substantial systems of governance and control.

Internal Audit will be amending the definitions of their findings, in line with CIPFA's recommendations, to remain in line with best practice.

307. **GOVERNANCE - INTERNAL AUDIT PLAN - 2021/22 - 2023/24**

The Panel and Board received a report of the Director of Corporate Resources (item 8 in the Minute Book) providing the Pension Fund Panel and Board with the Internal Audit Plan 2021/22 – 2023/24 for Pension Services. The plan for 2021/22 includes five audits taking 100 staff days to complete. The plan will remain fluid and subject to on-going review, and will be amended in consultation with the relevant officers, to ensure it continues to reflect the needs of the Council.

308. ACCESS 2021/22 BUSINESS PLAN

The Panel and Board considered the report from the Director of Corporate Resources (Item 9 in the Minute Book) including the ACCESS Business Plan for 2021/22, which had been agreed and recommended for approval to the member authorities by the ACCESS Joint Committee.

The budget for ACCESS for 2021/22 was £1.25m of which Hampshire's equal share would be £113,000.

RESOLVED:

(a) That the ACCESS Business Plan for 2021/22 was approved.

309. GOVERNANCE: PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE TERMS OF REFERENCE - SUBSTITUTES

The Panel and Board received a report of the Deputy Chief Executive and Director of Corporate Resources (item 10 in the Minute Book) proposing amendments to Terms of Reference for the Responsible Investment (RI) Sub-Committee. This follows previous observations from both the RI Sub-Committee and Panel and Board members of the benefits of adding substitute members to the RI Sub-Committee.

It is recommended that where possible, for continuity substitute members are drawn from the previous year's members of the RI Sub-Committee that have rotated off. It is additionally recommended that substitute members only attend the RI sub-committee when required to substitute for a Member who is absent. This ensures that when considering recommendations of the sub-committee, a majority of Panel and Board Members have not been part of the previous sub-committee discussion and for that majority there cannot be any suggestion of pre-determination. In this context it should also be noted that the sub-committee concept was for a small group that could efficiently consider issues in depth and formulate recommendations to the Panel and Board. This in turn supports the Panel and Board to effectively reach informed decisions.

RESOLVED:

(a) That the amended Terms of Reference for the RI Sub-Committee was approved.

(b) That the Panel and Board agreed that the previous members of the RI Sub-Committee would be appointed as substitutes in the first instance for the RI Sub-Committee for the remainder of the 2020/21 municipal year.

310. **TRADE UNION REPRESENTATION**

The Panel and Board received a report of the Deputy Chief Executive and Director of Corporate Resources (item 11 in the Minute Book) including a written deputation from the trade union UNISON making a case for creating an additional trade union representation on the Panel and Board, and the recommendation from the Deputy Chief Executive and Director of Corporate Resources that the current composition of the Panel and Board continues to be the most efficient and effective for the governance of the Pension Fund.

The request for an additional representative is based on improving representation, governance and communication for the Pension Fund. It is unclear how an additional trade union representative will be of benefit to the Fund's communications with its members. The Pension Fund's aim is to communicate directly with all its scheme members. Communication material is and will continue to be available to all of the trade unions, so that they can include it in their own communications if they wish to do so.

The Panel and Board has 9 County Councillors that are representatives of the Administering Authority, and an equal number of (3) scheme member and (3) employer representatives in line with the statutory requirements in respect of Pension Boards. Careful consideration was given in the current formation of the Panel and Board, balancing the representation of the Administering Authority, which has the legal responsibility for the management of the Pension Fund, with scheme member and employer representation. This format, which was approved by the Secretary of State, full access and voting rights on all issues, including governance, administration and investment of the Pension Fund. In this respect Hampshire has been well ahead of the recommendations of the Scheme Advisory Board's Good Governance recommendations.

Scheme Member Representative seats were specifically allocated across all membership groups of scheme members (active, deferred and pensioners), to ensure full and broad representation. All scheme members (with the exception of Hampshire County Council employees, as set out in the Council's constitution) are able to apply for the representative roles, which are allocated based on criteria set-out in the Representation Policy. All three roles (plus the substitute) are open to trade union members, and indeed the Panel and Board's first active scheme member representative was a trade union member. Therefore the current three scheme member representative roles are open to all scheme members, including trade union members as they have been in the past, with an equal opportunity of appointment.

Cllr Corkery stated his opposition to the recommended, and that a Trade Union representative should be added to the Panel and Board based on the principle of collective bargaining and because the resources of Trade Unions would benefit the Pension Fund's communication and supporting the diversity of potential candidates that would be a Trade Union representative.

Cllr Corkery, seconded by Dr Bartle, proposal to delete section 4. of the report and replace with:

That the Panel and Board agrees that the request for a trade union representative would improve the effectiveness of the Panel and Board and requests that permission is sought from the SoS for a revised structure that includes trade union representation.

This proposal was defeated.

RESOLVED:

(a) That the request received for an additional specific trade union representative on the Panel and Board and that any changes to the composition of the Panel and Board would require the approval of the Secretary of State was noted.

(b) That the Panel and Board agreed that the current composition of the Panel and Board, as approved by the Secretary of State, is most efficient and effective for the governance of the Pension Fund and continues to offer equality of opportunity to be a representative on the committee to all scheme members, including trade union members.

311. 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 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.

Following the resolution the Chairman asked for the broadcasting of the meeting to end.

312. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the Pension Fund Panel and Board held on 4 December 2020 were confirmed.

313. PENSION FUND CUSTODIAN UPDATE

Item 14 was deferred until the Panel and Board's next meeting.

314. FIDUCIARY DUTY

Item 15 was deferred until the Panel and Board's next meeting.

315. **INVESTMENT - INVESTMENT UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 16 in the Minute Book) updating the Panel and Board on the Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

Chairman,

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HAMPSHIRE COUNTY COUNCIL

Report

| | |
|-------------------------|---|
| Committee/Panel: | Audit Committee |
| Date: | 26 July 2021 |
| Title: | External Audit Planning Report 2020/21 |
| Report From: | Ernst and Young LLP (external auditors) |

Contact name: Sarah Croft

Tel: 02380 382000

Email: scroft@uk.ey.com

Purpose of this Report

1. The purpose of this report is to provide the Audit Committee with an update to the external audit plan for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2021.

Recommendation

2. That the Audit Committee receives and notes the Hampshire County Council and Hampshire Pension Fund Audit Planning Reports for 2020/21, as attached at Appendix 1 and 2.

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 disproportionately low.

2. Equalities Impact Assessment:

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

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Hampshire County Council Audit planning report

Year ended 31 March 2021
June 2021



23 June 2021

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

Dear Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide you with a basis to review our proposed audit approach and scope for the 2020/21 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. It is also designed to ensure that our audit is aligned with your service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Hampshire County Council, and outlines our planned audit strategy in response to those risks (subject to finalisation).

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 at the Audit Committee on 26 July 2021, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

Associate Partner
For and on behalf of Ernst & Young LLP

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|  | |  | |  | |  | |  | |
|  | |  | |  | |  | | | |
| 06 | Audit team | 07 | Audit timeline | 08 | Independence | 09 | Appendices | | |

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

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

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



01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

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

Audit risks and areas of focus

| Risk / area of focus | Risk identified | Change from PY | Details |
|---|-----------------|------------------------------------|---|
| Misstatements due to fraud or error | Fraud risk | No change in risk or focus | As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required. |
| 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. Our judgement is that the risk at the Council relates to the improper capitalisation of revenue expenditure. |
| Valuation of Land and Buildings and Investment Properties | Inherent risk | Reduction in risk or focus from PY | 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. Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE as of 31 March 2021 however we do not expect the same level of uncertainty this year and as such have reflected this in our risk assessment. |

Overview of our 2020/21 audit strategy

| Risk / area of focus | Risk identified | Change from PY | Details |
|--|-----------------|----------------------------|---|
| Pension Liability Valuation | Inherent risk | No change in risk or focus | <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>The Council's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement. Due to complexity and size, enhanced procedures are required to challenge and evaluate key inputs and assumptions.</p> |
| Page 42 Private Finance Initiatives (PFI) | Inherent risk | No change in risk or focus | <p>There is a high level of estimation and complexity involved with this estimate. In addition, the amount is significant to the Council and as such a small variation in the estimate can have a significant impact.</p> |
| Disclosures on Going Concern | Inherent risk | No change in risk or focus | <p>The unpredictability of the current environment gives rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by a management assessment with particular reference to Covid-19 and Council's actual year end financial position and performance for the going concern period of 12 months after the auditor's report date.</p> |

Overview of our 2020/21 audit strategy

Materiality

Planning
materiality

£42.5m

Planning Materiality has been set at £42,526,980 which represents 1.8% of the prior years gross expenditure on services).

Performance
materiality

£31.9m

Performance materiality has been set at £31,895,235 which represents 75% of Planning materiality.

Audit
differences

£2.1m

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) greater than £2,126,000 which is 5% of materiality. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2020/21 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Hampshire County Council ("HCC") give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our commentary against specified reporting criteria (see Section 03) 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.

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. The extent of our procedures will depend on the materiality of the Council's balances for the Whole of Government Accounts.

Taking the above into account, and as articulated in this outline audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focused on, for example, valuations of PPE and investment property, pension obligations, the auditing of LG and the introduction of new accounting standards such as IFRS 15 and 9 in recent years as well as the expansion of factors impacting on the value for money conclusion. In Section 9 we have highlighted where additional work will be required for 2020/21 at this stage. We will discuss with management the associated fees as the audit progresses.



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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.

| | | |
|---|---|---|
| <p>Misstatements due to fraud or error</p> | <p>What is the risk?</p> | <p>What will we do?</p> |
| <p>Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements.</p> | <p>As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p> <p>We identify and respond to this risk on every audit engagement.</p> | <ul style="list-style-type: none"> • 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. • Consider of the effectiveness of management's controls designed to address the risk of fraud. <p>Perform mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul style="list-style-type: none"> • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Assessing accounting estimates for evidence of management bias, and • Evaluating the business rationale for significant unusual transactions. <p>We will utilise our data analytics capabilities to assist with our work.</p> <p>Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.</p> |

Our response to significant risks

We have set out the significant risks (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.

| | | |
|--|--|---|
| <p>Inappropriate capitalisation of revenue expenditure (risk of fraud in revenue and expenditure recognition)</p> | <p>What is the risk?</p> | <p>What will we do?</p> |
| <p>Financial statement impact</p> <p>Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income accounts. The relevant accounts we associate the revenue and expenditure recognition risk to had the following balances in the 2019-20 financial statements:</p> <p>PPE Additions: £119m</p> | <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>The risk in local government is in areas where management make judgements that impact whether material items of expenditure are financed from capital or revenue resources.</p> <p>As such we associate this risk with capital additions.</p> | <p>For a sample of recorded capital additions we will examine invoices, capital expenditure authorisations and other data that support the appropriateness of these additions.</p> <p>We will ensure that the items are capital in nature as per the definition of capital expenditure in IAS 16, and do not include revenue items.</p> <p>We will utilise our data analytics capabilities to assist with our work through identifying high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.</p> |

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? | What will we do? |
|---|---|
| <p><u>Valuation of Land and Buildings and Investment Properties</u> Land and buildings and Investment Properties are the most significant balances in Council's Balance Sheet (NBV of £4,533m as at 31 March 2020). The valuation is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p> <p>Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of the Council's property assets as at 31 March 2021.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Consider the competence, capability and objectivity of the organisation's internal valuer; • Consider the scope of the valuer's work; • Ensure Land & Building assets have been revalued within a 5 year rolling programme as required by the Code, and investment properties annually; • Consider if there are any specific changes to assets that should have been communicated to the valuer; • Sample test key inputs used by the valuer when producing valuations; • Consider the results of the valuer's work; • Challenge the assumptions used by the valuer by reference to external evidence and our EY valuation specialists (where necessary); • Test journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements; • Consider the potential impact of Covid-19 on valuation uncertainties; and • Review assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated. <p>There are also additional procedures we need to perform to comply with the new International Standard of Auditing in relation to estimates which is applicable for this year end (ISA 540), see Appendix D on page 40.</p> |

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? | What will we do? |
|--|--|
| <p><u>Pension Liability Valuation</u></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>The Council's pension fund deficit is a material estimated liability on the balance sheet. At 31 March 2020 this totalled £1,500 million for all schemes.</p> <p>The information disclosed is based on the IAS 19 report issued by the actuary to the County Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>In the prior year the 'McCloud' judgement impacted the estimate and resulted in an amendment of the net pension liability. We anticipate this will again be a key assumption in estimating the pension liability. We would expect the Authority's actuary to be basing their assumptions taking into account the Authority's specific membership profile and how it has been impacted by the judgement. We also note that there may be further developments in this area, potentially again coming after the balance sheet date.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council's scheme members; • Assess the work of the actuary of LGPS, including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; • Review Hampshire Pension Fund's financial statements and compare the year end asset value with the estimate used by the actuary when producing the CC's IAS 19 report; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. • As with valuation of land and buildings, there are also additional procedures we need to perform to comply with the new International Standard of Auditing in relation to estimates which is applicable for this year end (ISA 540), see Appendix D on page 40. |

Other areas of audit focus (continued)

What is the risk/area of focus?

Private Finance Initiatives

The Council has 2 PFI contracts in place, in respect of waste and street lighting. These were both operational and recognised in the Council's balance sheet as at 31 March 2021.

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Disclosures on Going Concern

There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council are required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on its expenditure and income sources, there is a need for the Council to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Council are then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

We consider the unpredictability of the current environment to give rise to a risk that the Council will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment and including particular reference to the impact of Covid-19.

What will we do?

We will:

- Review for any changes in the financial model from previous years and confirm the assumptions used continue to be appropriate.
 - Review and test the accounting entries and disclosures made within the Council's financial statements
 - As with valuation of land and buildings, there are also additional procedures we need to perform to comply with the new International Standard of Auditing in relation to estimates which is applicable for this year end (ISA 540), see Appendix D on page 40.
 - We will also look to obtain an update on the recommendations raised in relation to the street lighting PFI as part of our 2019/20 audit results report.
-
- Continue to assess the adequacy of disclosures required in 2020/21, and the impact on our opinion, should these be inadequate;
 - Obtain management's going concern assessment and review for any evidence of bias and consistency with the accounts;
 - Review the financial modelling and forecasts prepared by the Council. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion;
 - Ensure that an appropriate going concern disclosure has been made within the financial statements; and
 - Considered the impact on our audit report and comply with EY consultation requirements, if such are determined appropriate.

There are also additional procedures we will need to perform to comply with the new International Standard of Auditing in relation to Going Concern which is applicable for this year end (ISA 570), see Appendix D on page 41.



03

Value for Money risks





The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal controls 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 its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its 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 its arrangements for securing value for money from their use of resources.

Auditor's responsibilities under the new Code

Under the 2020 Code of Audit Practice we are still required to consider whether the Council have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 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 have 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; 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.

Planning and Identifying VFM risks

The NAO's guidance notes require 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. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

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

- The Council's governance statements
- 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 regard 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.



Planning and identifying VFM risks (continued)

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.

Responding to identified risks

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

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor’s Annual Report. The 2020 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 should 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 2020/21 VFM planning

We have yet to fully finalise our detailed VFM planning. However, one area of focus may be on the arrangements that the Council have in place in relation to financial sustainability in light of the impact of Covid-19. We will continue to update the Audit Committee meeting on the outcome of our VFM planning, any further changes to our risk assessment and also our planned response to any identified risks of significant weaknesses in arrangements.



04

Audit materiality

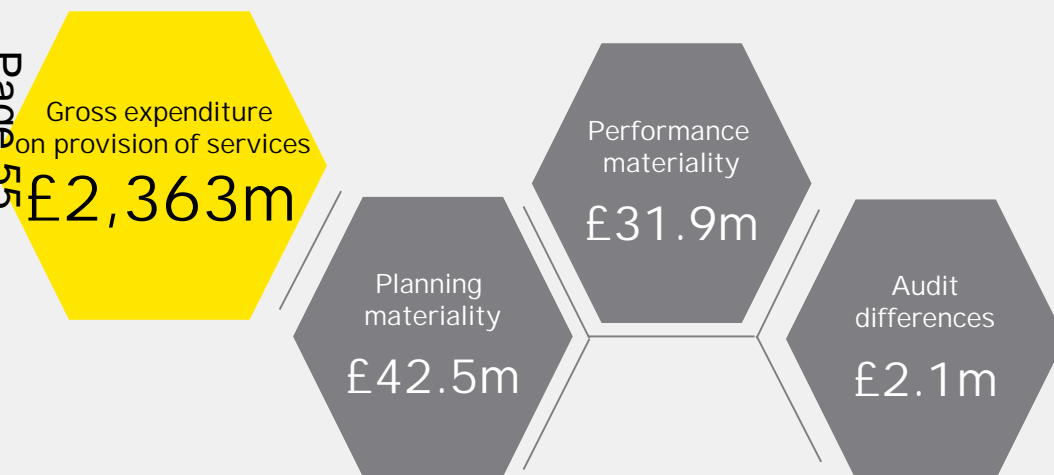


Materiality

Materiality

For 2020/21 planning purposes, we are using the prior year's final materiality, which was set at £42.526,980. This represents 1.8% of the Council's prior year gross revenue expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £31.9m, which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income. The threshold has been set at 5% of planning materiality.

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

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



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period, to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements to secure value for money through economic, efficient and effective use of resources

We are required to consider whether the Council has put in place arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

Our initial assessment of the key processes across the entity 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 Integrated business centre (IBC) have commissioned an ISAE 3402 type 2 report from EY's Financial Audit IT (FAIT) team. The ISAE 3402 report provides the users of the IBC with assurance over the suitability of the design and existence of controls and on the operating effectiveness of these controls during the financial year.

Analytics:

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

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

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

Internal audit:

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



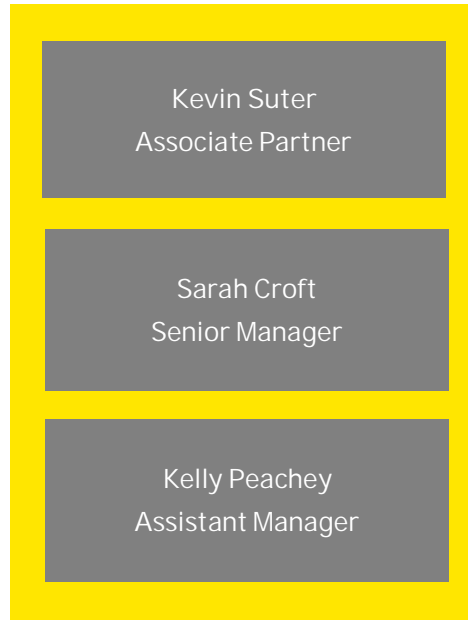
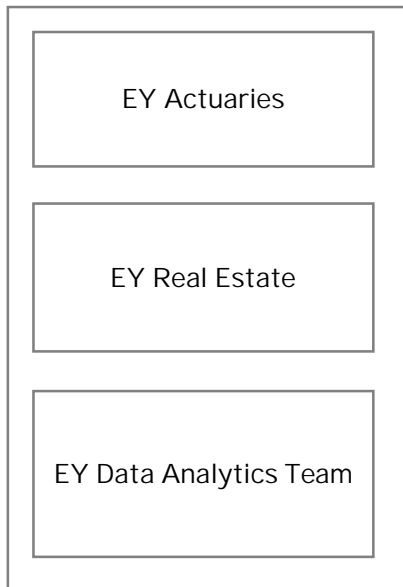
06

Audit team



Audit team

Audit team structure:



Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2020/21 audit.

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

* Key Audit Partner

Use of specialists

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

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

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

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

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



07 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

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.

| Audit phase | Timetable | Audit committee timetable | Deliverables |
|--|-----------------------|---------------------------|--|
| Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes Interim audit testing (Started) | July 2021 | Audit Committee | Audit Planning Report Interim audit update |
| Year end audit | June – September 2021 | | Verbal update |
| Audit Completion procedures | September 2021 | Audit Committee | Audit Results Report Audit opinions and completion certificates Auditor’s Annual Report - The NAO has confirmed that this should be reported within 3 months of the opinion on the financial statements. |



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in 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 |
|---|--|
| <p>▶ 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;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>The overall assessment of threats and safeguards;</p> <p>Information about the general policies and process within EY to maintain objectivity and independence.</p> | <p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit/additional services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the audit or external experts used have confirmed their independence to us;</p> <p>▶ 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</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of 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</p> <p>▶ An opportunity to discuss auditor independence issues.</p> |

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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

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

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

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

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

We have adopted the following safeguards as a result:

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

Relationships, services and related threats and safeguards

Self interest threats (continued)

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

Self review threats

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

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

Management threats

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

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

Other threats

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

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

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020>



09

Appendices



Appendix A

Fees

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

| | Planned fee 2020/21 | Final Fee 2019/20 |
|----------------------------|---------------------|-------------------|
| | £ | £ |
| Base Audit Fee – Code work | 89,720 | 89,720 |

| | 2020/21 | 2019/20 |
|--|---------|---------|
| | £ | £ |
| Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1) | 39,246 | 39,246 |
| Scale fee variation – Covid-19 and Going Concern considerations, addressing significant risk on PPE valuation (Notes 2 and 3) and VFM conclusion (Note 4) | TBC | 26,443 |

All fees exclude VAT

The agreed fee presented 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; and
- ▶ The Council has an effective control environment.

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

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

Notes:

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements.
2. The 2019/20 additional fees have been discussed with management, who disagree with any additional fees being levied, and therefore it has been referred to PSAA for consideration.
3. For 2020/21, as noted at Appendix D, there are additional procedures required to satisfy the revised ISAs that have come into effect which may have additional costs. These will be discussed in due course with management and we will update the Audit Committee as the audit progresses.
4. As explained in section 3 of this report, the NAO's new 2020 Code of Audit Practice sets out new requirements for our work and reporting on Value for Money. We are unable to quantify the impact at the planning stage of the audit




Appendix B

Required communications with those charged with governance

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





Our Reporting to you

| Required communications |  What is reported? |   When and where |
|-------------------------------------|---|--|
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report |
| Significant findings from the audit | <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process | Audit results report |



Required communications (continued)



Our Reporting to you

| Required communications |  What is reported? |  When and where |
|-------------------------|---|--|
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements | Audit results report |
| Misstatements | <ul style="list-style-type: none"> • 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 • Corrected misstatements that are significant • Material misstatements corrected by management | Audit results report |
| Fraud | <ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud | Audit results report |
| Related parties | <ul style="list-style-type: none"> • 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 |



Required communications (continued)

| Required communications |  What is reported? |  When and where |
|---------------------------------------|--|--|
| Independence | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • 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 | Audit Planning Report and Audit Results Report |
| External confirmations | <ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report |
| Consideration of laws and regulations | <ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of | Audit results report |
| Internal controls | <ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit | Audit results report |

Appendix B

Required communications (continued)

Our Reporting to you

| Required communications |  What is reported? |  When and where |
|--|---|--|
| Representations | Written representations we are requesting from management and/or those charged with governance | 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 | <ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report | Audit results report |
| Fee Reporting | <ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work | Audit planning report Audit results report |

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

Impact of changes in auditing standards

ISA 540 (Accounting Estimates)

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.

We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.

- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.

Impact of changes in auditing standards - continued

ISA 570 (Going Concern)

The FRC has issued significant revisions to ISA (UK) 570 - Going Concern. This follows several well-publicised cases of perceived audit failure, such as Carillion and BHS. In these cases, the auditors failed to raise concerns in the auditor's report about the viability of the companies, despite them collapsing shortly after.

The changes increase the work required by auditors on going concern. As a result, we will be requesting greater evidence on going concern to meet these requirements, including, in all cases, management's assessment of the entity's ability to continue as a going concern for a period of at least a year from certification.

Key changes

The revised ISA 570 shifts the burden of responsibility on to an auditor to seek specific evidence over whether an entity is a going concern as opposed to reach a conclusion based on the evidence obtained throughout the audit. This has meant the following changes:

- A new requirement to design and perform specific risk assessment procedures to identify whether a material uncertainty related to going concern exists;
- Specified procedures that the audit team must carry out to evaluate management's assessment regardless of whether there are events or conditions that cast significant doubt on going concern;

Introduction of the concept of management bias in respect of going concern;

A requirement for more explicit conclusions and an explanation of work performed on going concern within the audit opinion / report.

The ISA does acknowledge that the level of detail in management's assessment and the auditor's evaluation of this assessment may be lower where this is appropriate in the circumstances. This may be the case where the entity is established in statute and there is a statutory mechanism by which it receives funding. The fact that an entity is wholly funded by grant in aid or other support from the government is not however in itself sufficient evidence that the entity is a going concern.

Evidence requirements

The changes to ISA 570 could increase the evidence requests made by audit teams. We will require written assessments supported, where appropriate, by cash flow forecasts and budgets for a period of at least 12 months from Approval of the Financial Statements. These will need to be realistic and based on up-to-date information with assumptions appropriate to the entity's circumstances. We may ask for evidence to support the assumptions made and sensitivity analysis.

Where the assessment involves continued financial support from a third party, we will likely need written third party evidence of that except where such support is statutory.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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Hampshire Pension Fund

Audit planning report

Year ended 31 March 2021

July 2021

8 July 2021



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

Dear Committee Members

Audit Planning Report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2020/21 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. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

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 26th July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in blue ink that reads "Kevin Suter".

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

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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.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2019)" 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 Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hampshire Pension Fund 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 Pension Fund 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 2020/21 audit strategy



Overview of our 2020/21 audit strategy

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

Audit risks and areas of focus

| Risk / area of focus | Risk identified | Change from PY | Details |
|--|------------------|----------------------------|---|
| Misstatements due to fraud or error | Fraud risk | No change in risk or focus | As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. |
| Valuation of complex Investments (Level 3 Fair Value hierarchy) | Significant risk | No change in risk or focus | Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data. Significant judgements are made by the Investment Managers or administrators to value these investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error. |
| Valuation of non-exchange traded pooled funds (Level 2 Fair Value hierarchy) | Inherent risk | No change in risk or focus | The Pension Fund's investment valuations are classified into three levels, according to the quality and reliability of information used to determine fair value. As at 31 March 2021, Hampshire Pension Fund held a significant balance of Level 2 investments. Assets at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. The Pension Fund held £1,393 million of these investments at 31 st March 2021 of which £471 million relates to directly held property investments. (see next page) |

Overview of our 2020/21 audit strategy

| Risk / area of focus | Risk identified | Change from PY | Details |
|--|-----------------|----------------------------|---|
| Valuation of directly held property (Level 2 Fair Value hierarchy) | Inherent risk | Reduction in risk | <p>Directly held property are subject to valuation changes. Material judgemental inputs and estimation techniques are required to calculate the year-end valuation</p> <p>As the pension fund asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that directly held property may be under/overstated.</p> <p>We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p> <p>We have reduced the risk compared to the prior year as there is less uncertainty and volatility in the property market at the year end.</p> |
| <p>Page 84</p> <p>Disclosure on Going Concern.</p> | Inherent risk | No change in risk or focus | <p>The unpredictability of the current environment gives rise to a risk that the Pension Fund may not appropriately disclose the key factors relating to going concern, underpinned by a management assessment with particular reference to Covid-19 and the Pension Fund actual year end financial position and performance for the going concern period of 12 months after the auditor's report date.</p> |

Overview of our 2020/21 audit strategy

Materiality



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Audit scope

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

- Our audit opinion on whether the financial statements of Hampshire Pension Fund give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- 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 Pension Fund.



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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.

| | | |
|--|---|---|
| <p>Misstatements due to fraud or error*</p> | <p>What is the risk?</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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.</p> | <p>What will we do?</p> <p>We will undertake our standard procedures to address fraud risk, which include:</p> <ul style="list-style-type: none"> ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▶ Understanding the oversight given by those charged with governance of management’s processes over fraud. ▶ Consideration of the effectiveness of management’s controls designed to address the risk of fraud. |
| <p>Financial statement impact</p> <p>Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements.</p> | | <p>Performing mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ▶ Assessing accounting estimates for evidence of management bias. ▶ Evaluating the business rationale for significant unusual transactions. <p>We will utilise our data analytics capabilities to assist with our work.</p> <p>We will include a focus on ensuring that the investment valuations provided through the custodian and fund managers are appropriately journaled into the financial statements, where we have identified the opportunity and incentive for override to occur.</p> |



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.

Valuation of complex Investments
(Level 3 Fair Value hierarchy)

What is the risk?

Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data.

Significant judgements are made by the Investment Managers or administrators to value these investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

What will we do?

Our approach will focus on:

- ▶ Reviewing the latest available audited accounts for the relevant investment company and ensuring there are no matters arising that highlight weaknesses in the investment company valuations;
- ▶ Where the latest audited accounts are not as at 31st March 2021, performing analytical procedures and checking the valuation output for reasonableness against our own expectations; and
- ▶ Testing accounting entries have been correctly processed in the financial statements.

If necessary, our internal valuation specialists will support our work in this area.

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Financial statement impact

As at 31 March 2021, Hampshire Pension Fund held a significant balance of level 3 investments. These included £443 million private equity investments, £269 million infrastructure investments and £220 million private debt.

These investments are more complex to value.

In the 2020/21 financial statements, the Pension Fund disclosed that the accuracy of these valuation techniques as between within 5% and 10%, or within £31.5 million of the estimated value.

02 - Audit risks

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?

Valuation of non-exchange traded pooled investment (Level 2 Fair Value hierarchy)

The Pension Fund's investment valuations are classified into three levels, according to the quality and reliability of information used to determine fair value. As at 31 March 2021, Hampshire Pension Fund held a significant balance of non-exchange traded pooled funds which are classified as Level 2

Assets at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

We consider the valuation of non-quoted pooled investments to be of a higher degree of inherent risk because of the extent of estimation uncertainty.

Valuation of directly held property

Directly held property are valued at level 2 in the fair value hierarchy, and subject to valuation changes.

Material judgemental inputs and estimation techniques are required to calculate the year-end valuation

As the pension fund asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that directly held property may be under/overstated.

We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What will we do?

We will:

- ▶ Reconcile the valuation of the non-quoted assets provided by the custodian and fund manager;
- ▶ Verify the fund manager unit valuation to recent unit sales using externally available market information
- ▶ Review the latest available audited accounts for the relevant fund and ensure there are no matters arising that highlight weaknesses in the fund's valuation;
- ▶ Performing an analytical review of the pooled funds movement in year against the specific market movements the fund is invested in

We will:

- ▶ Consider the competence, capability and objectivity of the Council's valuers;
- ▶ Sample test key inputs used by the valuer(s) when producing valuations;
- ▶ Challenge the assumptions used by the Pension Fund's property valuers by reference to external evidence and our EY valuation specialists (where necessary); and

Other areas of audit focus (continued)

What is the risk/area of focus?

What will we do?

Disclosures on going concern

There is a presumption that the Pension Fund will continue as a going concern for the foreseeable future. However, the Pension Fund is required to carry out a going concern assessment that is proportionate to the risks it faces.

In light of the continued impact of Covid-19, there is a need for the Pension Fund to ensure its going concern assessment, including its cashflow forecast, is comprehensive.

The Pension Fund is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

Given the available levels of liquid investment assets, we do not consider there to be a risk to the Fund's going concern status. We do consider the unpredictability of the current environment to give rise to a risk that the Pension Fund may not appropriately disclose the key factors relating to going concern, consistent with managements assessment with particular reference to Covid-19.

We will:

- ▶ Assess the adequacy of disclosures required in 2020/21, and the impact on our opinion, should these be inadequate;
- ▶ Obtain management's going concern assessment and review for any evidence of bias and consistency with the accounts;
- ▶ Review the financial modelling and forecasts prepared by the Pension Fund. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion.
- ▶ Ensure that an appropriate going concern disclosure has been made within the financial statements; and
- ▶ Considered the impact on our audit report and comply with EY consultation requirements, if such are determined appropriate.

There are also additional procedures we will need to perform to comply with the new International Standard of Auditing in relation to Going Concern which is applicable for this year end (ISA 570), see Appendix D on page 35.



03

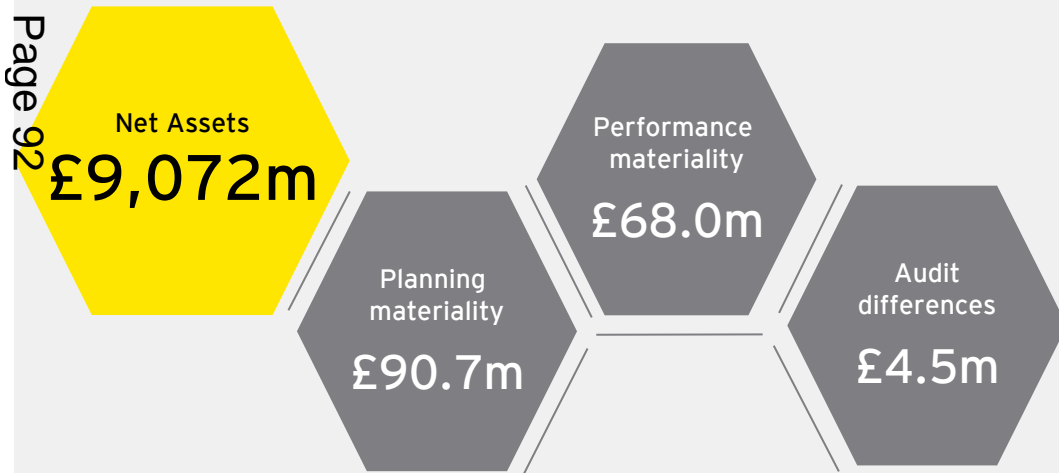
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £90.7 million. This represents 1.0% of the Pension Fund's prior year net assets. It will be reassessed throughout the audit process. For Hampshire Pension Fund, the Net Asset Statement, which discloses the value of the investments held by the scheme, is the most appropriate measure rather than the Fund Account. Assets are key, as they cover the liabilities of the fund and generate significant income. Use of net assets as the measure of materiality is EY standard practice for pension funds.



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

Key definitions

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

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £68.0 million which represents 75% of planning materiality.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and the net assets statement that have an effect on returns or that relate to expenditure.

Other uncorrected misstatements, such as reclassifications and misstatements in statements 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.



04

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

1. Financial statement audit

Our objective is:

- To form an opinion on the financial statements under International Standards on Auditing (UK).
- To form an opinion on the consistency of the Pension Fund Financial Statements within the Pension Fund Annual Report with the published financial statements of Hampshire County Council.

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

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



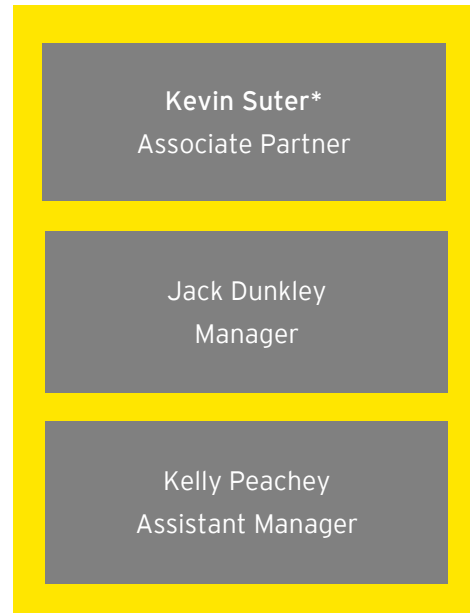
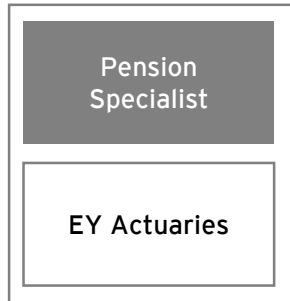
05

Audit team



Audit team

Audit team structure:



* Key Audit Partner

Use of specialists

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

| Area | Specialists |
|---|--|
| IAS 26 - actuarial present value of promised retirement benefit | Management Specialist - Aon Hewitt PwC (Consulting Actuary to the NAO) EY Specialist - EY Actuaries |
| Investment valuations (Level 2 and Level 3) | Management Specialist - Colliers (Property valuations) EY Specialist - EY valuation specialist (if necessary) |

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

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

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



06 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion.

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

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| Audit phase | Timetable | Audit committee timetable | Deliverables |
|---|-------------------|---------------------------|---------------------------------------|
| Planning: Risk assessment and setting of scopes. | February - May | | |
| Walkthrough of key systems and processes | February | | |
| Interim substantive procedures | April | | |
| Year end audit Audit Completion procedures | June / July | Audit Committee | Audit Planning Report |
| Year end audit Audit Completion procedures | August/ September | Audit Committee | Audit Results Report Audit opinion |



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07

Independence





Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in 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

- ▶ 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.

Final stage

- ▶ 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 Pension Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees, and we do not undertake any non-audit services for the pension fund.

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

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

Self review threats

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

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

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Pension Fund. 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 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020>



08

Appendices



Appendix A

Fees

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

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.

| | Planned fee 2020/21 | Scale fee 2020/21 | Final Fee 2019/20 |
|---------------------------|------------------------|----------------------|----------------------|
| | £ | £ | £ |
| Total Fee - Code work (1) | TBC | 24,442 | TBC |
| Total audit | TBC | 24,442 | TBC |

The agreed fee presented is based on the following assumptions:

- ▶ Officers meet the agreed timetable of deliverables;
 - ▶ The production of materially accurate draft accounts;
 - ▶ Our accounts opinion is unqualified;
 - ▶ Appropriate quality of documentation is provided by the Pension Fund;
- and
- ▶ The Pension Fund has an effective control environment.

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

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

Note:

1) As detailed in our 2019/20 Annual Audit Letter for Hampshire County Council and Pension Fund, we have submitted a proposed recurrent rebasing of the scale fee. We also submitted a scale fee variation for 2019/20 for the impacts of Covid-19 on the audit strategy.

PSAA are yet to review conclude on either variation submission.




All fees exclude VAT.

Appendix B




Required communications with the Audit Committee

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

Our Reporting to you





| Required communications |  What is reported? |   When and where |
|-------------------------------------|---|--|
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report |
| Significant findings from the audit | <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process | Audit results report |

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|----------------------------------|--|--|
| Required communications |  What is reported? |  When and where |
| Page 108 Financial Statements | <p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | Audit results report |
| | <ul style="list-style-type: none"> ▶ 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 ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management | Audit results report |
| Fraud | <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud | Audit results report |
| Related parties | <p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity | Audit results report |

Appendix B

Required communications with the Audit Committee (continued)

| | |  Our Reporting to you |
|--|--|--|
| Required communications |  What is reported? |   When and where |
| Independence | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 | <p>Audit Planning Report</p> <p>Audit Results Report</p> |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of | Audit results report |
| Internal controls | <ul style="list-style-type: none"> ▶ 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 | Assurance Letter |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report |
| Auditors report | <ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report | Audit results report |
| Fee Reporting | <ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit | <p>Audit planning report</p> <p>Audit results report</p> |

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund'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 Fund to express an opinion on the consolidated 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; and
- ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

Impact of changes in auditing standards

ISA 540 (Accounting Estimates)

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- We may ask for new or changed management representations compared to prior years.

To respond to these additional requirements:

- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.

Impact of changes in auditing standards - continued

ISA 570 (Going Concern)

The FRC has issued significant revisions to ISA (UK) 570 - Going Concern. This follows several well-publicised cases of perceived audit failure, such as Carillion and BHS. In these cases, the auditors failed to raise concerns in the auditor's report about the viability of the companies, despite them collapsing shortly after.

The changes increase the work required by auditors on going concern. As a result, we will be requesting greater evidence on going concern to meet these requirements, including, in all cases, management's assessment of the entity's ability to continue as a going concern for a period of at least a year from certification.

Key changes

The revised ISA 570 shifts the burden of responsibility on to an auditor to seek specific evidence over whether an entity is a going concern as opposed to reach a conclusion based on the evidence obtained throughout the audit. This has meant the following changes:

- ▶ A new requirement to design and perform specific risk assessment procedures to identify whether a material uncertainty related to going concern exists; specified procedures that the audit team must carry out to evaluate management's assessment regardless of whether there are events or conditions that cast significant doubt on going concern;
- ▶ Introduction of the concept of management bias in respect of going concern;
- ▶ A requirement for more explicit conclusions and an explanation of work performed on going concern within the audit opinion / report.

The ISA does acknowledge that the level of detail in management's assessment and the auditor's evaluation of this assessment may be lower where this is appropriate in the circumstances. This may be the case where the entity is established in statute and there is a statutory mechanism by which it receives funding. The fact that an entity is wholly funded by grant in aid or other support from the government is not however in itself sufficient evidence that the entity is a going concern.

Evidence requirements

The changes to ISA 570 could increase the evidence requests made by audit teams. We will require written assessments supported, where appropriate, by cash flow forecasts and budgets for a period of at least 12 months from Approval of the Financial Statements. These will need to be realistic and based on up-to-date information with assumptions appropriate to the entity's circumstances. We may ask for evidence to support the assumptions made and sensitivity analysis.

Where the assessment involves continued financial support from a third party, we will likely need written third party evidence of that except where such support is statutory.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

| | |
|-----------------------|--|
| Decision Maker | Audit Committee |
| Date: | 19 July 2021 |
| Title: | Annual Internal Audit Report & Opinion 2020-21 |
| Report From: | Director of Corporate Operations |

Contact name: Neil Pitman

Tel: 0370 779 4082

Email: Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this paper is to provide the Audit Committee with the Chief Internal Auditors opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2021.

Recommendation(s)

2. That the Audit Committee approves the Annual Internal Audit Report & Opinion 2020-21 as attached.

Contextual Information

3. In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement.
4. The Annual Report for 2020/21 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the system of internal control and summarises audit work from which that opinion is derived for the year ending 31 March 2021.

5. The Audit Committee's attention is drawn to the following points:
 - Internal audit was compliant with the Public Sector Internal Audit Standards during 2020/21;
 - The revised internal audit plan for 2020/21 has been substantially delivered; and
 - The County Council's framework of governance, risk management and management control is considered to be 'Reasonable' and audit testing has demonstrated controls to be working in practice.
6. Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible managers.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

| | |
|--|----|
| 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' approval of the Annual Report & Opinion, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards | |

Other Significant Links

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

| | |
|---|-----------------|
| Section 100 D - Local Government Act 1972 - background documents | |
| <p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p> | |
| <u>Document</u> | <u>Location</u> |
| None | |

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

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

Annual Internal Audit Report & Opinion

2020-21

Hampshire County Council



Southern Internal Audit Partnership

Assurance through excellence
and innovation

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1. Role of Internal Audit

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

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

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].



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

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

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

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

2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary. A full range of internal audit services is provided in forming the annual opinion.

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

- Level of assurance required;
- Significance of the objectives under review to the organisation's success;
- Risks inherent in the achievement of objectives; and
- Level of confidence required that controls are well designed and operating as intended.

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

The impact of COVID-19 during the year has had a significant impact on the way we have worked and interacted. The enforced central government directive *'if you can work from home, you must do so'* has required the Southern Internal Audit Partnership to adopt a revised operating model and innovative approach to virtual auditing.

Work contributing to my 2020/21 annual opinion has all been undertaken virtually, optimising technology and virtual platforms to share, monitor and observe operations to substantiate our findings.

I am confident that the revised operating model has not compromised quality or SIAPs ability to complete assurance work throughout the year or the conclusion drawn. I would wish to extend my appreciation to County Council officers with whom we have worked during the year for their support, cooperation, and seamless transition to the virtual audit approach without which the delivery of an annual opinion would not have been possible.



3. Internal Audit Opinion

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

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

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

Annual Internal Audit Opinion 2020-21

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

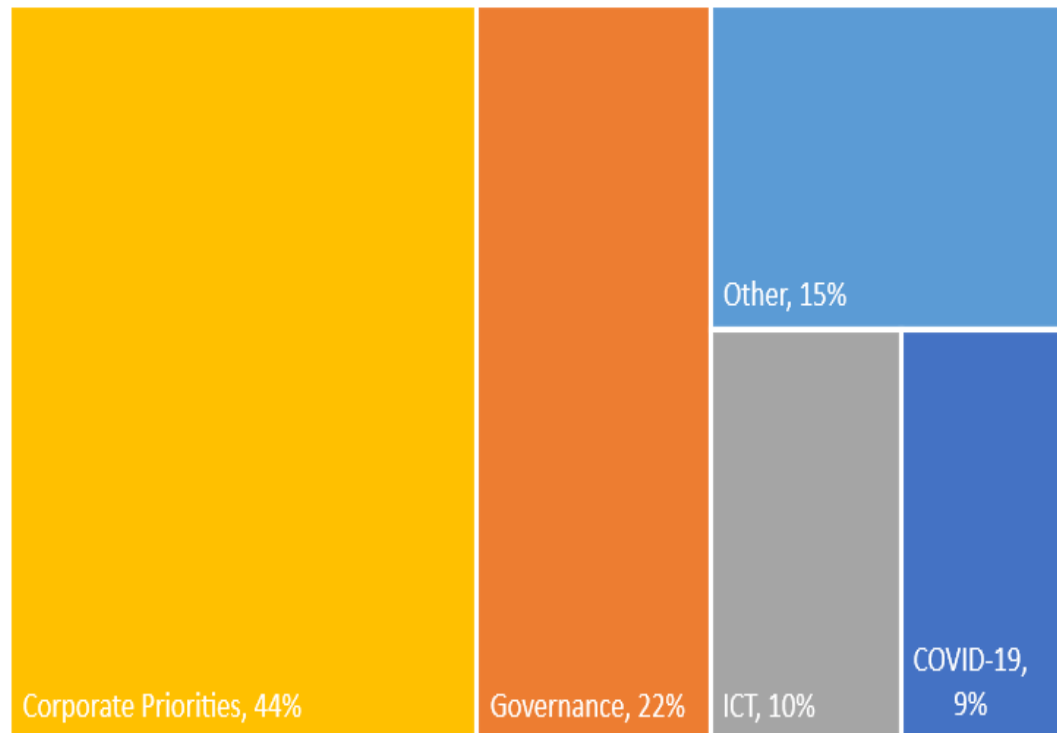
In my opinion, Hampshire County Council's framework of governance, risk management and control is 'Reasonable' and audit testing has demonstrated controls to be working in practice.

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

4. Internal Audit Coverage and Output

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

Audit Reviews by Type



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

The 2020-21 Internal audit plan, approved by the Audit Committee in July 2020, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

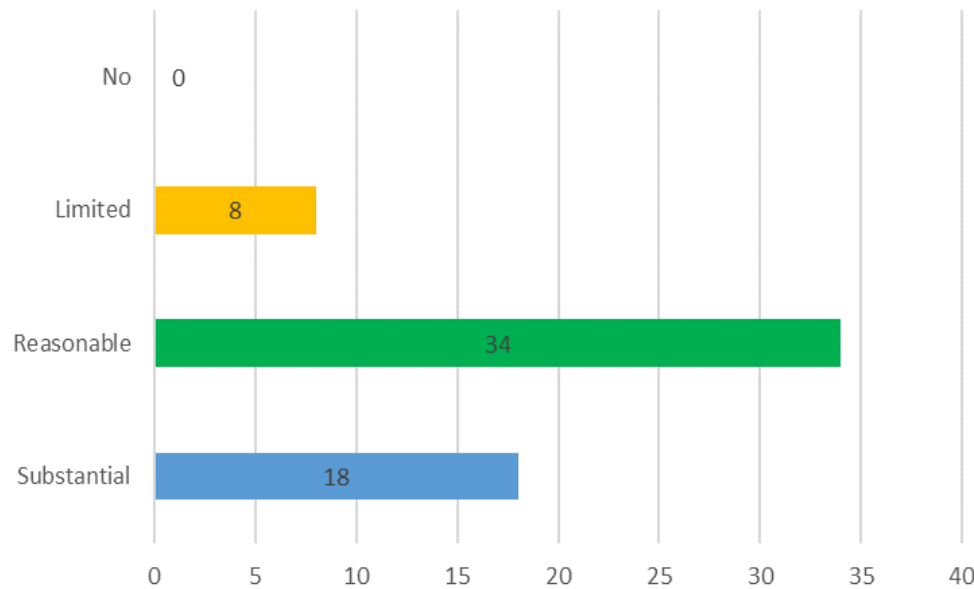
The scale of COVID-19 coupled with the speed of its impact and the wide-ranging challenges presented has necessitated new and different ways of working across the County Council. Such challenges and subsequent resolutions bring with them new and emerging risks that management need to consider, manage, and mitigate. The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken 97 reviews during the year ending 31 March 2021.

Due to the significant impact and subsequent challenges posed by the coronavirus pandemic (Covid-19), there has been an inevitable impact on the delivery of the revised 2020-21 internal audit plan.

Work is substantially complete, for 11 reviews (Social Supervision; Health & Safety; Debt Management; Armed Forces Covenant; Server Build Process; Use of Agency Staff in Children’s Social Care; Hampshire Futures; Medicine Control with Community Teams; Marketing; Education Financial Services; Education Personnel Services), however, final reports have not yet been agreed. I do not expect the outcomes of these reviews to adversely impact my annual opinion. It is fully anticipated that assurance work will be completed in these areas in the near future and will be reported to Senior Management and the Audit Committee as part of our next progress report.

There have been 86 completed reviews:



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.

*26 reviews did not culminate in an audit opinion as they were a combination of position statements; advisory; grants / claims; or assurance mapping.

5. International Standards on Assurance Engagements (ISAE 3402)

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

In 2020/21 Hampshire County Council commissioned a Service Organisation Controls (SOC) Type 2 Report under International Standard on Assurance Engagement (ISAE) 3402. Assurance against the international standard was provided by Ernst & Young.

The scope of the review incorporated coverage of General Ledger, Order to Cash, Purchase to Pay, Cash & Bank, Human Resources & Payroll, and Information Technology General Controls. In forming their 'Opinion' the auditors (Ernst & Young) concluded:

'In our opinion, in all material respects:

- a. The Description fairly presents the finance, HR and IT shared services system as designed and implemented throughout the period 1 April 2020 to 31 December 2020.*
- b. The controls related to the Control Objectives stated in the Description were suitably designed throughout the period from 1 April 2020 to 31 December 2020 to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period 1 April 2020 to 31 December 2020 and if subservice organisations and user entities applied the complementary controls assumed in the design of Integrated Business Centre's controls throughout the period 1 April 2020 to 31 December 2020; and*
- c. The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the Description were achieved, operated effectively throughout the period 1 April 2020 to 31 December 2020 if complementary subservice organisation and user entity controls assumed in the design of Integrated Business Centre's controls operated effectively throughout the period 1 April 2020 to 31 December 2020.'*

Internal audit continue to review areas of the Shared Services falling outside the scope of the ISAE2302 engagement as appropriate, through a shared internal audit plan with Hampshire County Council and Hampshire Police. The results of this work are reflected in this opinion.

6. Key Observations

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

Direct Payments (Adults)

Direct Payment Agreements and Authorised Person Checklists were not consistently evident within AIS. These key documents form the basis of the contract with the client, including agreement to the terms and conditions for receipt and use of the direct payments; and the basis of suitability checks, including considerations and requirements set out in the Care Act 2014 which detail expectations in relation to authorised persons.

Over a third of direct payments reviewed had not had an annual care review within the last 12 months, this review should include a detailed look at the use of the direct payment to ensure that payments remain in line with the client's needs and act as a check for any fraudulent or inappropriate use. Additionally, review highlighted a number of instances where payments did not correlate to the expected rate in accordance with the care plan.

Sample testing found recording in AIS to be incomplete to substantiate appropriate financial and mental health assessments had been completed.

Contract Management (Thematic)

As reported in prior years, whilst review of major contracts with assigned ownership and dedicated teams were generally found to be operating effectively, those contracts managed by officers alongside 'business as usual' responsibilities provided less rigour in the level of performance reporting and monitoring, increasing the risk that service delivery does not achieve the necessary standards agreed and expected by the County Council. There was also a lack of consistency in the ongoing due diligence of contractors to ensure relevant registrations, certifications and insurances were maintained.

Review during the year found there to be no corporate or departmental contract management training as a prerequisite to acquiring contract management responsibilities or to ensure consistency of approach.

Adults' Health & Care - Debt Management

Debt recovery is carried out as a function of the IBC, however, Adults' Health and Care (AHC) commissioned internal audit to review departmental responsibilities relating to queries on individual client invoices/accounts and overall monitoring of debt.

There was found to be no documented process or procedure within AHC to reflect how debt is managed within the department including how disputed debt is investigated and resolved. Roles and responsibilities had not been assigned or documented.

There was no overall monitoring or reporting of debt disputes nor overall responsibility for monitoring and progressing each case. AIS was not consistently updated to reflect any contact with clients to discuss or resolve disputed debts.

The Departmental Management Team (DMT) did not receive any reporting on the level of debt for the department or how it was being managed and write offs had not been processed since October 2019.

Whilst there were significant gaps in the control framework for debt management, we were able to evidence that individual referrals were being investigated, and resolutions sought, however, they were not carried out or recorded in a consistent manner across the department and were not always resolved in a timely manner.

A wider review of departmental debt management is currently underway to seek assurances across the wider organisation.

Highways Incident Management

Customer enquiries are processed and managed by the Highways Operations Centre (HOC), using the 'Confirm' database.

Comprehensive online guidance is available to HOC officers to aid them in their enquiry processing. HCC Highways Engineers have mobile devices that connect with the Confirm database, enabling them to receive and manage enquiry notifications from HOC and the call centre.

However, documentation recorded within Confirm to evidence enquires / remedial action was on occasion absent or of poor quality. Additionally, review of management information and dashboard reporting from Confirm was found to be incomplete/ inaccurate.

There were no procedures documented to manage unresolved and inactive enquiries within Confirm with testing highlighting instances of prolonged periods within which queries remained unresolved.

Adults – Contracted Suppliers

On discovery that one of the Council's ongoing Mental Health Providers had no contract in place since 2017, Adults' Health & Care commission internal audit to review the wider control framework in place.

Sample testing of Mental Health payments identified a further two contracts which had expired. In each case the care provision had continued to be delivered according to the original contract*

Approximately one third of payments sampled related to 'spot-purchase arrangements' for which there is no specific contract in place articulating agreed terms and conditions, increasing the risk to the Council of effectively being able to hold the provider to account.

**We were advised that these instances have occurred because they have not transferred to a suitable alternative contractual arrangement that would deliver the same care package.*

7. Anti-Fraud & Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image.

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

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

Reactive Fraud Activity - The Southern Internal Audit Partnership work with Hampshire County Council in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews are undertaken by professionally accredited (CIPFA CCIP) staff, in accordance with the Council's Anti-Fraud & Corruption Policy. During the year there were no material fraud investigations undertaken.

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

2020/21 was an upload year for the NFI with all data uploads successfully completed in accordance with the Cabinet Office deadlines. Match reports were released in January 2021 and investigation into these is ongoing. Results of investigation and identified savings will be contained in the annual report for 2021-2022

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

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

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

- One themed proactive review was undertaken during the year in relation to mandate fraud. Fieldwork on this review has recently been concluded with a report to officers pending in June 2021.

8. Quality Assurance and Improvement

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

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

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

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

In considering all sources of evidence the external assessment team 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.'

9. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through endorsement from the Institute of Internal Auditors that:

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

There are no disclosures of Non-Conformance to report.

10. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2020-21 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- An independent external quality assessment against the IPPF, PSIAS & LGAN.

11. Internal Audit Performance

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

| Performance Indicator | Target | Actual |
|--|-----------|-----------|
| Percentage of internal audit plan delivered (to draft report) | 95% | 89% |
| Positive customer survey response | | |
| <ul style="list-style-type: none"> • Hampshire County Council | 90% | 98% |
| <ul style="list-style-type: none"> • SIAP – all Partners | 90% | 98% |
| Public Sector Internal Audit Standards | Compliant | Compliant |

Customer satisfaction was collated for SIAPs EQA and is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date May 2020).

12. Acknowledgement

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

Neil Pitman
Head of Southern Internal Audit Partnership
June 2021

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HAMPSHIRE COUNTY COUNCIL

Decision Report

| | |
|-----------------------|----------------------------------|
| Decision Maker | Audit Committee |
| Date: | 19 July 2021 |
| Title: | Internal Audit Charter 2021-22 |
| Report From: | Director of Corporate Operations |

Contact name: Neil Pitman

Tel: 0370 779 4082

Email: Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the Internal Audit Charter 2021-22 to the Audit Committee in accordance with the requirements of the Public Sector Internal Audit Standards, as the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

Recommendation(s)

2. That the Audit Committee approves the Internal Audit Charter 2021-22 as attached.

Contextual Information

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

‘a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management control and governance processes, taking into account public sector internal auditing standards or guidance’
4. The Public Sector Internal Audit Standards (attribute standard 1000) require that all internal audit activities maintain an ‘internal audit charter’
5. The charter is a formal document that defines the internal audit activity’s purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

6. The internal audit charter establishes internal audits position within the organisation including:
 - Recognising the mandatory nature of the Public Sector Internal Audit Standards
 - Defining the scope of internal audit responsibilities
 - Establishing the responsibilities and objectives of internal audit
 - Establishing the organisational independence of internal audit
 - Establishing accountability and reporting lines (functional and administrative)
 - Setting out the responsibilities of the board and the role of statutory officers with regard to internal audit
 - Arrangements that exist with regard anti-fraud and anti-corruption
 - Establishing internal audit rights of access
 - Defining the terms 'board' and 'senior management' for the purpose of internal audit
 - Arrangements in place for avoiding conflicts of interest.

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

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

| | |
|---|----|
| 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: In accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards | |

Other Significant Links

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

| | |
|---|-----------------|
| Section 100 D - Local Government Act 1972 - background documents | |
| <p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p> | |
| <u>Document</u> | <u>Location</u> |
| None | |

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

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

Internal Audit Charter

Introduction

The Public Sector Internal Audit Standards, which took effect from the 1 April 2013, provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

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



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

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

Mission and Core Principles

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

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

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

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

Authority

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

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

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2017 [the Standards].

Purpose

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

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

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

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

Responsibility

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

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

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

Definitions

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

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

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

Position in the organisation

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

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

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

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

Internal audit resources

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

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

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

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

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

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

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

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

Independence and objectivity

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

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

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

- retains no executive or operational responsibilities
- operates in a framework that allows unrestricted access to 'senior management' and 'the Board'
- reports functionally to 'the Board'
- reports in their own name
- rotates responsibilities for audit assignments within the internal audit team
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements
- ensures the planning process recognise and address potential conflicts of interest.

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

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

Due professional care

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

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

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

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

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

Access to relevant personnel and records

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

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

Scope of Internal Audit activities

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

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

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

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

Managers are required to report all suspicions of theft, fraud and irregularity to the Chief Internal Auditor. Investigations carried out by internal audit will be managed by the Chief Internal Auditor who will ensure that investigators are fully trained in carrying out their responsibilities.

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

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

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

Reporting

Chief Internal Auditor's Annual Report and Opinion

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

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

The annual report will incorporate as a minimum:

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

Senior Management

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

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

The Board

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

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

Review of the internal audit charter

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

Annex 1

Southern Internal Audit Partnership – Client Portfolio

| | |
|----------------------------------|---|
| 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 Hampshire Fire & Rescue Authority Hampshire OPCC Hampshire Constabulary Sussex OPCC Sussex Police Force Surrey OPCC 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 Chichester Harbour Authority |
| | Further Education Institutions Eastleigh; Isle of Wight; Highbury; and Portsmouth |

Annex 2

Assurance Services

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

| | |
|-----------------------|----------------------------------|
| Decision Maker | Audit Committee |
| Date: | 19 July 2021 |
| Title: | Internal Audit Plan 2021-22 |
| Report From: | Director of Corporate Operations |

Contact name: Neil Pitman

Tel: 0370 779 4082

Email: Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to provide the Audit Committee with an overview of the Internal Audit Plan 2021 – 2022 (Appendix 1).

Recommendation(s)

2. That the Audit Committee are invited to comment on and approve the Internal Audit Plan 2021-22 as attached.

Contextual Information

3. In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement.
4. The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:
 - The framework of internal control, risk management and governance is appropriate and operating effectively; and
 - Risks to the achievement of the County Council's objectives are identified, assessed and managed to a defined acceptable level

5. The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.
6. Internal audit focus should be proportionate and appropriately aligned, as such, only high and medium priority reviews are incorporated within the Internal Audit Plan.
7. All low priority review areas remain within the audit universe and are reassessed on an annual basis, however, will not be routinely incorporated in the planning process if continued to be assessed as a low priority.
8. The audit plan will remain fluid to ensure internal audits ability to react to the changing needs of the County Council.
9. Other reviews, based on criteria other than risk, may also be built into the work plan. These may include 'mandatory' audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate a contribution to the audit opinion on risk management, control and governance.

Performance

10. 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.
11. Significant matters that jeopardise the delivery of the plan, or require changes to the plan are identified, addressed and reported to the Audit Committee.
12. The internal audit team have adopted a matrix style approach to enable the delivery of the plan, by using a resource pool of multi-disciplinary auditors capable of forming into teams as audit projects determine.
13. This approach will ensure seasonal peaks in demand can be effectively managed, an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise.
14. The Audit Plan 2021 – 22 has been developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's objectives.

15. The endorsement and sponsorship of the plan(s) at member / chief officer level will assist in providing the engagement and buy-in of staff at an operational level to ensure the outcome of audit reviews are optimised.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

| | |
|---|----|
| 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: <i>'Board' consideration and approval of the Internal Audit Plan, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards</i> | |

Other Significant Links

| | |
|--|--------------|
| Links to previous Member decisions: | |
| <u>Title</u> | <u>Date</u> |
| Internal Audit Charter 2021-22 | 19 July 2021 |
| Direct links to specific legislation or Government Directives | |
| <u>Title</u> | <u>Date</u> |
| | |

| | |
|---|-----------------|
| Section 100 D - Local Government Act 1972 - background documents | |
| <p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p> | |
| <u>Document</u> | <u>Location</u> |
| None | |

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

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

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Internal Audit Plan

2021-22

Hampshire County Council



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Southern Internal Audit Partnership

Assurance through excellence
and innovation

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Introduction

The role of internal audit is that of an:

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

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

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

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

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

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

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

Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The team will be led by Neil Pitman, Head of Southern Internal Audit Partnership, supported by Karen Shaw, Deputy Head of Partnership, Natalie Jerams, Assistant Head of Partnership and Iona Bond, Melanie Weston, Liz Foster, Mark Norton and James Short, Audit Managers.

Conformance with internal auditing standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2020 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

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

Considering all sources of evidence the external assessment team 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.'

Conflicts of Interest

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

Developing the internal audit plan 2021/22

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

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

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

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

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

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



Internal Audit Plan 2021-22

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|--------------------------------|---------------------|--|-----------------------------|---------|
| Corporate Cross Cutting | | | | |
| Health and Safety | DoCCBS | Review of new processes to assess whether they are embedded and working well across departments to ensure compliance with Health and Safety Regulations. | | Q4 |
| Budget Monitoring | DoCR | Assurance that new procedures have been rolled out and are working in practice to support effective budget monitoring. | | Q1 |
| Trading companies – Governance | Cross Cutting | Review of a selection of trading companies in place across the County Council. | | Q2 |
| Governance | | | | |
| Risk Management | DoCCBS | To review the effectiveness of the corporate risk management strategy/policy and procedures and their application within departments following the introduction of a new risk management tool. | | Q3 |
| Information governance | CE | To review arrangement in place to ensure ongoing compliance with data protection / GDPR requirements across the organisation following changes to working practices arising from the COVID pandemic. | | Q2 |
| Insurance arrangements | CE | Review of new strategy and claims processes for both insured and self-insured losses. | | Q4 |
| Fraud (Proactive / Reactive) | DoCR | Range of proactive and reactive initiatives to help identify and mitigate the risk of fraud. To include participation in the National Fraud Initiative. | | |
| Annual Governance Statement | CE | Review & contribute to the Annual Governance Statement. | | Q1 |
| Annual self-assessment PSIAS | DoCR | In accordance with the requirements of the Public Sector Internal Audit Standards. | | Q1-2 |
| Market Underwriting | DoCR | To review controls, processes and governance in place for market underwriting arising from the COVID pandemic. | | Q1 |
| Brexit | ACE | Contingency as needed to review any issues arising. | | Q1-Q4 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|--|---------------------|---|-----------------------------|---------|
| Restructure and Redundancy | DoCR | To provide assurance on the end-to-end processes and accuracy of payments made. | | Q2 |
| Whistle blowing - HR case management | DoCR | Following a review of the policy in 2020 to provide assurance over the process followed. | | Q3 |
| Senior appointments process - advice | DoCR | To provide advice/ assurance that new processes being developed are in line with the constitution. | | Q2 |
| IT | | | | |
| Operating Systems | DoCR | Primary focus on Windows albeit other operating systems will be risk assessed as part of the review. | | Q1 |
| Disaster Recovery | DoCR | Assurances over review and maintenance of DR during a period of significant change in IT delivery. | | Q2 |
| IT Asset Management | DoCR | Assurance over management of IT assets and the developments made in new systems and processes. | | Q3 |
| Service Desk | DoCR | Assurance over management of calls, measurement of performance and customer service improvement. | | Q2 |
| Major Incident Management | DoCR | Assurance over the effective management of priority one incidents across the IT department. | | Q4 |
| Microsoft Contract Management | DoCR | Assurance over the management of the O365 contract to ensure value for money is obtained from the contract. | | Q3 |
| O365 Platform Management | DoCR | Assurance over the effective management of the O365 platform regarding process, policy, and security. | | Q4 |
| Vulnerability Scanning and Remediation | DoCR | Assurance that servers follow appropriate scanning regimes with findings promptly acted on. To include both automated and manual tasks. | | Q3 |
| Secure Website Development | DoCR | Assurance over the standards and procedures in place to ensure website developments are built and maintained securely. | | Q2 |
| Application Review – SWIFT | DoCR | Assurance over the effective management of SWIFT. | | Q1 |
| Data Centre Security (Follow Up) | DoCR | Follow up of management actions by IT and FM to ensure risks have been addressed from the previous report. | | Q2 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---------------------|--|-----------------------------|----------------------|
| Corporate Objective - Hampshire safer and more secure for all | | | | |
| Safeguarding - Children | DoCS | To review the ongoing internal and external assurances that the department receive for the safeguarding of children. | | Q4 |
| School thematic(s): | DoCS | Review a sample of schools and disseminate key risks / actions to all establishments | | |
| <ul style="list-style-type: none"> • COVID Catch up fund • Minibuses/MIDAS training • Recruitment • Income generation | | | | Q1 Q2 Q2 Q4 |
| Reactive - Schools/ establishments | DoCS | Full reviews of individual schools based on discussions with relevant stakeholders | | Q1-4 |
| SFVS | DoCS | To review the SFVS responses received (and sample check) prior to DfE deadline | | Q1,4 |
| Children's Services establishments thematic | DoCS | Review a sample of establishments and disseminate key risks / actions to all establishments | | |
| <ul style="list-style-type: none"> • Use of agency staff • Petty cash | | | | Q4 Q2 |
| Music Service | DoCS | Review policies and processes in place to ensure that the Service is run efficiently and effectively. | | Q3 |
| Corporate Objective - Maximising wellbeing | | | | |
| Foster Care Payments | DoCS | End to end review of the new Foster Care Payments process | | Q3 |
| No recourse to public funds | DoCS | To review the effectiveness of processes for the care of families who have "No recourse to public funds". | | Q1 |
| Continuing Care Recharging | DoCS | To review the effectiveness of processes in place for the recharging of care. | | Q2 |
| Subject Access Requests | DoCS | To review the processing and management of subject access requests. | | Q1 |
| Connect for Communities | DoCS | To review the management and usage of the Connect for Communities grant. | | Q1 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---------------------|---|-----------------------------|---------|
| Independent Non-Maintained Special (INMS) Schools | DoCS | Effectiveness of processes in place to ensure value for money for independent non-maintained special school placements. | | Q4 |
| Social Care Records Management Centre | DoAHC & DoCS | Review of business processes in place to manage semi-live records in accordance with current regulations. | | Q4 |
| AHC thematic review(s): | DoAHC | To review a sample of establishments and disseminate key risk and actions to all relevant parties. | | |
| • Use of agency staff | | | | Q1 |
| • TBC | | | | Q3 |
| • TBC | | | | Q4 |
| Continuing Health Care | DoAHC | Assurance that processes are operating effectively after assessment delays during COVID pandemic. | | Q4 |
| Recharging of Younger Adults Care | DoAHC | Effectiveness of processes in place to recover funds for care provided jointly with the NHS or for other Local Authorities. | | Q3 |
| Shared Lives | DoAHC | To review the effectiveness of the processes in place for the Shared Lives scheme. | | Q4 |
| Sickness Recording (AHC) | DoAHC | Compliance with corporate sickness reporting processes. | | Q3 |
| Hampshire and IOW Partnership for Public Health | DoAHC | Review of the partnership from HCC perspective. | | Q4 |
| Contingency Planning | DoAHC | To review arrangements for contingency planning across younger and older adults. | | Q2 |
| LGA Healthcheck | DoAHC | To assist with the health check or review findings and action plan. | | Q3 |
| Section 42 Safeguarding | DoAHC | To provide assurance over processes in place to comply with Section 42 of The Care Act. | | Q2 |
| Meals on Wheels Contract Management | DoAHC | Review of the contract management arrangements. | | Q1 |
| Corporate Objective - Enhancing our quality of place | | | | |
| Flood management | DoETE | Review of the flood management strategy (published late 2020) and policies. | | Q1/2 |
| Waste disposal contract | DoETE | Review of effectiveness of contract management arrangements. | | Q3 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---------------------|---|-----------------------------|---------|
| Highways Incident Management | DoETE | Follow-up on the management actions from the 2020/21 audit of Highways Incident Management. | | Q2 |
| Countryside Access Management System | DoCCBS | Review the effectiveness of CAMS for reporting, triaging, prioritising, monitoring and recording resolution of incidents and issues. | | Q4 |
| Countryside and Outdoors membership and booking income collection systems | DoCCBS | Review the effectiveness of the new membership and booking systems for the collection of income for Countryside and Outdoors. . | | Q4 |
| Travel Plans for Developers | DoETE | Review of the processes and support mechanisms in place from a customer, efficiency and value perspective. | | Q2 |
| Transport Trading & Business Group | DoETE | Business process-based review to ensure that the back-office systems are streamlined and effective for trading and selling services to internal and external clients. | | Q1 |
| Records Management Centre | DoCCBS | To review business processes in place to manage records in accordance with current regulations. | | Q1 |
| Use of volunteers | DoCCBS | To review the arrangements, including safeguarding, for the use of volunteers in the library and countryside service. | | Q3 |
| Registration Service EPOS replacement | DoCCBS | To review the EPOS replacement system processes to ensure they are working effectively. | | Q4 |
| Transforming City Projects | DoETE | Review of the HCC governance and programme management arrangements for the delivery of joint projects with SCC and PCC. | | Q4 |
| Asbestos | DoCCBS | New Alpha Tracker system being purchased to replace the Asbestos register. | | Q3 |
| Highway Development Agreements | DoETE | Review of the processes in place for administering Section 38 and Section 278 agreements, including income identification and expenditure, supervising and inspection arrangements. | | Q2 |
| Trading Standards | DoCCBS | Undergoing transformation and procuring new work scheduling system. | | Q3/4 |
| Parking Services – On Street Enforcement | DoETE | Review of the governance arrangements in place for reporting of income and expenditure by District Authorities to HCC. | | Q1 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|--|---------------------|--|-----------------------------|---------|
| Asset Investment Strategy | DoETE | Review of the governance / risk management / decision making arrangements in place regarding asset investment and maintenance. This follows a BSI audit of the Asset Management Framework. | | Q2 |
| Blue Badges | DoETE | Assurance regarding the processes in place for dealing with applications for Blue Badges. | | Q4 |
| Coroners Service | DoCCBS | Review of Coroners Service commissioning, costs and new recharging processes. | | Q3 |
| Building risk management (property) | DoCCBS | Review framework for managing risk whether related to the business or management of risk on behalf of partners. | | Q2 |
| Buildings Health and Safety – compliance with process and procedures | DoCCBS | To focus on the building risk control responsibilities and procedures and compliance with requirements. | | Q3 |
| Strategic Land Programme | DoCCBS | To review the arrangement for the planning and use of capital receipts generated from the sale of land. | | Q3 |
| Landlord / tenant arrangements | DoCCBS | Assurance that HCC maintain a complete listing/ agreement for all areas of the estate (landlord / tenant responsibilities are clear for each). | | Q2 |
| HC3S finance reporting and monitoring | DoCCBS | To review new finance reporting and monitoring processes. | | Q1 |
| HC3S financial recovery plan | DoCCBS | To review the financial recovery plan for HC3S. | | Q4 |
| Procurement and Contract Management | | | | |
| Contract management - training | DoTG | Advisory work to input into the development of e-learning during the year. | | Q2 |
| Highways service contract | DofETE | To review effectiveness of contract management arrangements. | | Q2 |
| Highways Maintenance (New Operating Model) | DoETE | Mobilisation audit following the change from Skanska to Milestone to ensure that contractual obligations continue to be met. | | Q1/2 |
| Procurement - ETE | DoETE | To review procurement processes and compliance with Regulations and agreed policies. | | Q1 |
| Minor works framework (Property) | DoCCBS | To review procurement processes and compliance with EU Regulations and agreed policies. | | Q3 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---------------------|---|-----------------------------|---------|
| Major construction framework | DoCCBS | To review the effectiveness of contract management arrangements. | | Q2 |
| County Supplies | DoCCBS | To review the effectiveness of contract management arrangements. | | Q1 |
| Southern Construction Framework Contractor Payments | DoCCBS | To review the Fair Payment arrangements for contractors on the framework. | | Q1 |
| Grants / Other | | | | |
| Reading & Hampshire Property Partnership – Review of Accounts | - | Certify a sample of transactions and reconciliations for HCC and RBC. | | Q1 |
| Local Transport Plan – integrated transport plan | - | As per grant certification | | Q2 |
| Local Transport Plan – block maintenance | - | As per grant certification | | Q2 |
| Local Transport plan – incentive | - | As per grant certification | | Q2 |
| Local Transport Plan – Pothole and Challenge Fund | - | As per grant certification | | Q2 |
| Local Bus Subsidy Support Grant | - | As per grant certification | | Q2 |
| COVID-19 Bus Services Support Grant Restart | - | As per grant certification | | Q2 |
| Disabled Facilities Grant | - | As per grant certification | | Q2 |
| Additional Dedicated Home to School Transport | - | As per grant certification | | Q2 |
| Project integra | - | As per grant certification | | Q1 |
| Growth hub funding (LEPS) | - | As per grant certification | | Q1 |
| EU Transition business readiness engagement project | - | As per grant certification | | Q1 |
| Additional growth hub funding (LEPS) | - | As per grant certification | | Q1 |
| Local Government Compensation scheme | - | To review 2021/22 Q1 claim for the LGCS. | | Q2 |
| COVID 19 Test and Trace Service Support | - | As per grant certification | | Q2 |
| Public Sector Decarbonisation Scheme Grant | - | As per grant certification | | Q3 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---------------------|----------------------------|-----------------------------|---------|
| Travel Demand Management Grant | - | As per grant certification | | Q1 |
| Supporting Families Management & Review | - | As per grant certification | | Q1-4 |

Shared Services Internal Audit Plan 2021-22

Services provided under the shared service arrangements with Hampshire Constabulary, the Office of the Hampshire Police and Crime Commissioner and Hampshire & Isle of Wight Fire and Rescue Service are reviewed via a joint internal audit plan that provides assurance to all parties to avoid duplication. All three organisations contribute audit days to this plan which is reported below for information.

The Integrated Business Centre attains assurance under International Standards on Assurance Engagements (ISAE) 3402 through Service Organisation Control (SOC) Type 1 and Type 2 reports. SIAP will not duplicate assurances attained through provision of ISAE 3402.

| Audit | Risk | Scope | Proposed Timing |
|--|--|--|-----------------|
| Governance & IT | | | |
| PCI DSS | Non-compliance with the PCI DSS | Assessment of the IBC aspects of the PCI DSS for 2021. | Q2 |
| HR | | | |
| Recruitment (Success Factors) | Recruitment processes are not sufficiently robust and timely to meet needs of the recruiting organisation. | A full review was last carried out during 2019/20. Audit to be scoped according to outcomes of 2019/20 review and focus on high-risk areas. | Q1 |
| Pre-employment checks | Suitability of staff to undertake roles is not confirmed. | The 2019/20 audit focussed on DBS checks. The 2020/21 review focussed on broader pre-employment checks including professional registrations & the new DBS app (implementation May 2020). The 2021/22 audit will again look at broader pre-employment checks, including changes in right to work legislation. | Q3/4 |
| Pay review and award process | Staff are not paid the correct amount. | To review the process for pay awards through to implementation in payroll. | Q3 |
| Procurement & Contract Management | | | |
| Procurement (General) | Non-compliance with EU Regulations and Contract Procedure Rules. | To review procurement processes and compliance with relevant Regulations and agreed policies. (£100k +). | Q1 |

| Audit | Risk | Scope | Proposed Timing |
|------------------------------|---|--|-----------------|
| Cleaning contract management | Performance issues are not addressed. Poor value for money. | New contract in place from April 2020 for HCC and HIWFRA. To review the effectiveness of contract management arrangements. | Q1 |
| P Cards | Unauthorised of fraudulent payments. | Increase in cards issued during pandemic. To review the set up, cancellation and process for the use of P cards. | Q2 |
| Other | | | |
| Contingency | | To review any areas identified that fall outside the scope of ISAE3402. | As needed |
| Management | | Planning, liaison, reporting, action tracking, external audit liaison, advice | |

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HAMPSHIRE COUNTY COUNCIL

Decision Report

| | |
|------------------------|--|
| Decision Maker: | Audit Committee |
| Date: | 26 July 2021 |
| Title: | Annual Treasury Outturn Report 2020/21 |
| Report From: | Director of Corporate Operations |

Contact name: Gemma Farley

Tel: 0370 779 4704

Email: Gemma.farley@hants.gov.uk

Purpose of the Report

1. The County Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the County Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2020/21.

Recommendations

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

Executive Summary

3. The report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2020/21.
4. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2021. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the

revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the County Council's treasury management strategy.

5. Treasury management in the context of this report is defined as: "The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
6. This annual report sets out the performance of the treasury management function during 2020/21, to include the effects of the decisions taken and the transactions executed in the past year.
7. All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2020/21, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the County Council's treasury advisers, Arlingclose.
8. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council in February 2021.

External Context

9. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2020/21.

Economic commentary

10. The coronavirus pandemic dominated 2020/21, resulting in significant levels of government borrowing and expenditure to support the economy, with the UK also agreeing a Brexit trade deal within the period.
11. The Bank of England (BoE) held Bank Rate at 0.1% throughout the year and extended its Quantitative Easing programme by £150bn to £895bn in November 2020. The Bank expects Gross Domestic Product (GDP) to remain low in the near-term but believes that the easing of restrictions is likely to lead to a strong recovery in growth later in 2021, with inflation forecast to increase in the near-term. The economic outlook has improved

but downside risks remain, such as a further increase in unemployment when the furlough scheme ends.

12. Inflation remained low during 2020/21, with the annual headline rate of UK Consumer Price Inflation (CPI) rising to 0.7% year-on-year in March 2021, below expectations and below the BoE's 2% target. Unemployment was higher for the three months to March 2021 than for the same period the previous year, while periods of GDP contractions and growth over the year largely mirrored the tightening and easing of restrictions, creating some significant quarterly swings.

Financial markets

13. Monetary and fiscal stimulus helped provide support for equity markets which rose over the period. In the UK, the FTSE indices performed reasonably well during the period to November 2020 before being buoyed in December by both the vaccine approval and Brexit deal.
14. Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

Credit review

15. After spiking in March 2020, credit default swap spreads subsequently declined to broadly pre-pandemic levels. Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks.
16. Moody's downgraded the UK sovereign rating to Aa3 with a stable outlook during the period and this change had an impact on a number of other UK institutions, banks and local government.
17. The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the pandemic and the effects of lockdowns and restrictions. This uncertainty means the County Council's treasury management advisors, Arlingclose, continue to recommend maximum durations of 35 days for unsecured investments with banks and building societies on their list of recommended counterparties.

Local Context

18. At 31 March 2021, the County Council's underlying need to borrow for capital purposes was £776.46m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £877.8m. These factors are summarised in Table 1.

| Table 1: Balance sheet summary | 31/03/20 Balance £m | Movement £m | 31/03/21 Balance £m |
|---------------------------------------|------------------------------------|------------------------|------------------------------------|
| CFR | 783.48 | (7.02) | 776.46 |
| Less: Other debt liabilities* | (149.43) | 7.96 | (141.47) |
| Borrowing CFR | 634.05 | 0.94 | 634.99 |
| External Borrowing | (307.24) | 6.47 | (300.77) |
| Internal Borrowing | 326.81 | 7.41 | 334.22 |
| Less: Usable Reserves | (665.89) | (88.96) | (754.85) |
| Less: Working Capital | (204.53) | 81.62 | (122.91) |
| Net Investments | (543.61) | 0.07 | (543.54) |

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

19. The CFR reduced by £7.0m during 2020/21. Other debt liabilities reduced by £8.0m in accordance with the PFI repayment models while the County Council's borrowing CFR increased by just under £1m as a result of its capital programme. External borrowing reduced by £6.5m during 2020/21 as a result of repayment of £10.0m Public Works Loan Board (PWL) borrowing and the scheduled repayment of other borrowing of £3.4m, partly offset by a change in the short-term balances held on behalf of other organisations, which vary from year to year. At the end of the 2020/21 financial year the total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the DSG deficit, total £754m an increase of nearly £89m on the previous year. Of this increase, over £28m relates to the increase in reserves held by individual schools and £30m relates to the Covid-19 financial response package. The balance includes contributions to Departmental cost of change reserves offset by agreed use of the Corporate Reserves.
20. The County Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position at 31 March 2021 and the change during the year are shown in Table 2.

| Table 2: Treasury management summary | 31/03/20 Balance £m | Movement £m | 31/03/21 Balance £m | 31/03/21 Rate % |
|---|------------------------------------|------------------------|------------------------------------|--------------------------------|
| Long-term borrowing | (261.2) | 11.9 | (249.3) | 4.66 |
| Short-term borrowing | (10.0) | 1.5 | (8.5) | 4.10 |
| Total borrowing | (271.2) | 13.4 | (257.8) | 4.67 |
| Long-term investments | 274.3 | (14.4) | 259.9 | 4.01 |
| Short-term investments | 105.5 | 89.2 | 194.7 | 0.32 |
| Cash and cash equivalents | 201.7 | (89.2) | 112.5 | 0.03 |
| Total investments | 581.5 | (14.5) | 567.0 | 1.95 |
| Net investments | 310.3 | (1.1) | 309.2 | |

Note: the figures in Table 2 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments. Borrowing figures exclude short term balances held on behalf of others.

21. The reduction in net investments of £1.1m shown in Table 2 reflects a reduction in investment balances of £14.5m largely offset by the repayment at maturity of borrowing of £13.4m, in line with the County Council's policy on internal borrowing. Further details are provided in the Borrowing Activity and Treasury Investments Activity sections of this report.

Borrowing Update

22. In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. The rate at which local authorities could borrow from the PWLB is defined by a margin above gilts and following the response to the consultation the margin above gilts on PWLB loans was reduced from 1.8% to 0.8%, however restrictions were introduced meaning that this rate would only be available to authorities not planning to purchase investment assets primarily for yield.
23. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Authorities planning to purchase investment assets primarily for yield will only be able to access the PWLB to refinance existing loans or externalise internal borrowing and not for other purposes.
24. The County Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB, however there are no plans to take on any new external borrowing.

Borrowing Activity

25. At 31 March 2021 the County Council held £257.8m of loans (a decrease of £13.4m from 31 March 2020) as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

| Table 3: Borrowing position | 31/03/20 Balance | Net movement | 31/03/21 Balance | 31/03/21 Weighted average rate | 31/03/21 Weighted average maturity (years) |
|------------------------------------|-------------------------|---------------------|-------------------------|---------------------------------------|---|
| | £m | £m | £m | % | |
| Public Works Loan Board | (226.5) | 10.0 | (216.5) | 4.7 | 10.7 |
| Banks (LOBO) | (20.0) | - | (20.0) | 4.8 | 12.3 |
| Other (fixed term) | (24.7) | 3.4 | (21.3) | 4.0 | 18.7 |
| Total borrowing | (271.2) | 13.4 | (257.8) | 4.7 | 11.5 |

Note: the figures in Table 3 are from the balance sheet in the County Council's statement of accounts but adjusted to exclude short term balances held on behalf of others, and accrued interest.

26. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the County Council's long-term plans change is a secondary objective.
27. Short-term interest rates have remained much lower than long-term rates and the County Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional external borrowing. In line with this strategy, £10.0m of PWLB loans were allowed to mature without refinancing and a further £3.4m of other borrowing was repaid, predominantly related to the repayment of borrowing from the Solent LEP for the Solent Economic Zone (Daedalus) Phase 1 programme.
28. This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
29. The County Council also continues to hold £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender in the year.

Treasury Investment Activity

30. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the County Council's investment balances ranged between £336m and £611m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4.

| Table 4: Treasury investment position | 31/03/2020 Balance | Net movement | 31/03/2021 Balance | 31/03/21 Income return | 31/03/21 Weighted average maturity (years) |
|--|---------------------------|---------------------|---------------------------|-------------------------------|---|
| | £m | £m | £m | % | |
| Short term investments | | | | | |
| - Banks and Building Societies: | | | | | |
| - Unsecured | 26.3 | 43.2 | 69.5 | 0.04 | 0.04 |
| - Secured | 15.0 | (4.4) | 10.7 | 0.31 | 0.78 |
| - Money Market Funds | 175.3 | (97.3) | 78.0 | 0.04 | 0.00 |
| - Local Authorities | 80.5 | 58.5 | 139.0 | 0.34 | 0.34 |
| - Cash Plus funds | 10.0 | - | 10.0 | 0.93 | - |
| Total | 307.1 | - | 307.1 | 0.21 | 0.19 |
| Long term investments | | | | | |
| - Banks and Building Societies: | | | | | |
| - Secured | 33.2 | (13.2) | 20.0 | 0.35 | 1.84 |
| - Local Authorities | 40.0 | (5.0) | 35.0 | 1.28 | 1.24 |
| Total | 73.2 | (18.2) | 55.0 | 0.94 | 1.46 |
| Long term investments – higher yielding strategy | | | | | |
| - Local Authorities | | | | | |
| - Fixed deposits | 20.2 | 1.5 | 21.7 | 4.32 | 12.49 |
| - Fixed bonds | 10.0 | (10.0) | - | - | - |
| - Pooled Funds | | | | | |
| - Pooled property* | 75.0 | - | 75.0 | 4.03 | N/A |
| - Pooled equity* | 50.0 | - | 50.0 | 6.45 | N/A |
| - Pooled multi-asset* | 40.0 | 8.0 | 48.0 | 4.53 | N/A |
| Total | 195.2 | (0.5) | 194.7 | 4.80 | 12.49 |
| Total investments | 575.5 | (18.7) | 556.8 | 1.89 | 0.76 |
| Thames Basin Heaths pooled fund investments | 6.0 | 4.2 | 10.2 | | |
| Total | 581.5 | (14.5) | 567.0 | | |

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2021 based on the market value of investments at the start of the year.

Note: the figures in Table 4 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

31. The County Council made a payment of £226.7m on 1 April 2020 to prepay its employer's LGPS pension contributions. By making this payment in advance the County Council was able to generate an estimated saving of £9m over 3 years on its pension contributions, which will be added to the Budget Bridging Reserve.
32. Investment balances have subsequently increased and were £14.5m lower at 31 March 2021 than immediately prior to the pension prepayment. This is in part explained by the County Council not having to make monthly employer's pension contributions throughout 2020/21 (having already paid in advance) but also represents the impact of departmental underspends in 2020/21 and the balance of grants received but not yet applied. The impact of the coronavirus pandemic has created significant uncertainty, resulting in the need for significant assumptions within financial forecasts and a difference in timing between income and expenditure, both in terms of the direct response to the pandemic and in carrying out regular service delivery plans.
33. The CIPFA Code and government guidance both require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The County Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults alongside managing the risk of receiving unsuitably low investment income. The County Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.
34. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The County Council invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.
35. In delivering investment returns, the County Council has operated against a backdrop in which the UK Bank Rate was cut to 0.10% in March 2020 in response to the coronavirus pandemic. It has remained at this rate throughout the year, having an impact on rates across the market. Returns had been at or around 0% for liquid investment options such as Money Market Funds (MMFs), bank call accounts and the UK Government's Debt Management

Account Deposit Facility (DMADF) and have not been significantly higher for other short-term options like fixed duration loans to other local authorities and bank notice accounts. Investment income has therefore largely come from investments arranged at fixed rates of interest prior to the pandemic and through the County Council's investments in pooled funds.

36. The County Council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 March 2021 and at the same date in 2020 for comparison.

| Table 5: Investment benchmarking (excluding pooled funds) | Credit rating | Bail-in exposure | Weighted average maturity (days) | Rate of return |
|--|----------------------|-------------------------|---|-----------------------|
| | | % | | % |
| 31.03.2020 | AA | 50 | 551 | 0.97 |
| 31.03.2021 | AA- | 40 | 393 | 0.50 |
| Similar LAs | AA- | 39 | 983 | 0.42 |
| All LAs | A+ | 63 | 14 | 0.15 |

37. Table 5 shows the average credit rating of the portfolio was lower at 31 March 2021 than at the same time the previous year, largely as a result of the impact of the pandemic on credit ratings across the market, including that of the UK Government. Bail-in exposure was lower than at the same time in 2020, as the County Council held a greater investment balance with other local authorities, who are not subject to bail-in risk, while the weighted average maturity of investments was lower as the County Council held lower long-term balances and sold at a gain £10m of very long term bonds, reinvesting the money in externally managed pooled funds. In addition there were timing differences between receiving and spending of Covid grants. The average rate of return (0.5%) was lower than at 31 March 2020, but with the benefit of higher rates for fixed investments made prior to the pandemic helping to offset returns at or close to 0% for many investments across the market. The County Council compared favourably with the other local authorities included in the benchmarking exercise across all metrics.

Externally managed pooled funds

38. In 2019 the County Council agreed to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £235m. This allocation was recently increased to £250m as part of the Capital and Investment Strategy for 2021/22 and the approach to investing this

allocation was most recently set out in the Treasury Management Strategy Statement for 2021/22.

39. Approximately £205m of this allocation has now been invested, with the remaining balance earmarked. The total includes £10.4m invested on behalf of the Thames Basin Heaths Joint Strategic Partnership Board (TBH JSPB), where the County Council acts as the administrative body. Any investments made from cash held on behalf of the TBH JSPB are made with the agreement that the TBH JSPB has received its own financial advice and assumes all risks associated with these investments.
40. The CIPFA Code requires the County Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the County Council's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the County Council's investments.
41. The County Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets but have since recovered well. These investments are now worth marginally more in aggregate than the initial sums invested, as shown in Table 6, demonstrating the importance of taking a longer term approach and being able to ride out periods of market volatility, ensuring the County Council is not a forced seller at the bottom of the market. The table also shows the County Council's investments in fixed deposits, which include long term loans to other local authorities and as part of the Manydown programme.

| Table 6 – Higher yielding investments – market value performance | Amount invested* | Market value at 31/03/21 | Gain/(fall) in capital value | |
|--|------------------|--------------------------|------------------------------|-------------|
| | | | Since purchase | 2020/21 |
| | £m | £m | £m | £m |
| Pooled property funds | 75.0 | 75.0 | 0.0 | 0.2 |
| Pooled equity funds | 50.0 | 49.5 | (0.5) | 12.0 |
| Pooled multi-asset funds | 48.0 | 48.7 | 0.7 | 1.3 |
| Total pooled funds | 173.0 | 173.2 | 0.2 | 13.5 |
| Fixed deposits** | 21.7 | 21.7 | 0.0 | 0.0 |
| Total higher yielding | 194.7 | 194.9 | 0.2 | 13.5 |

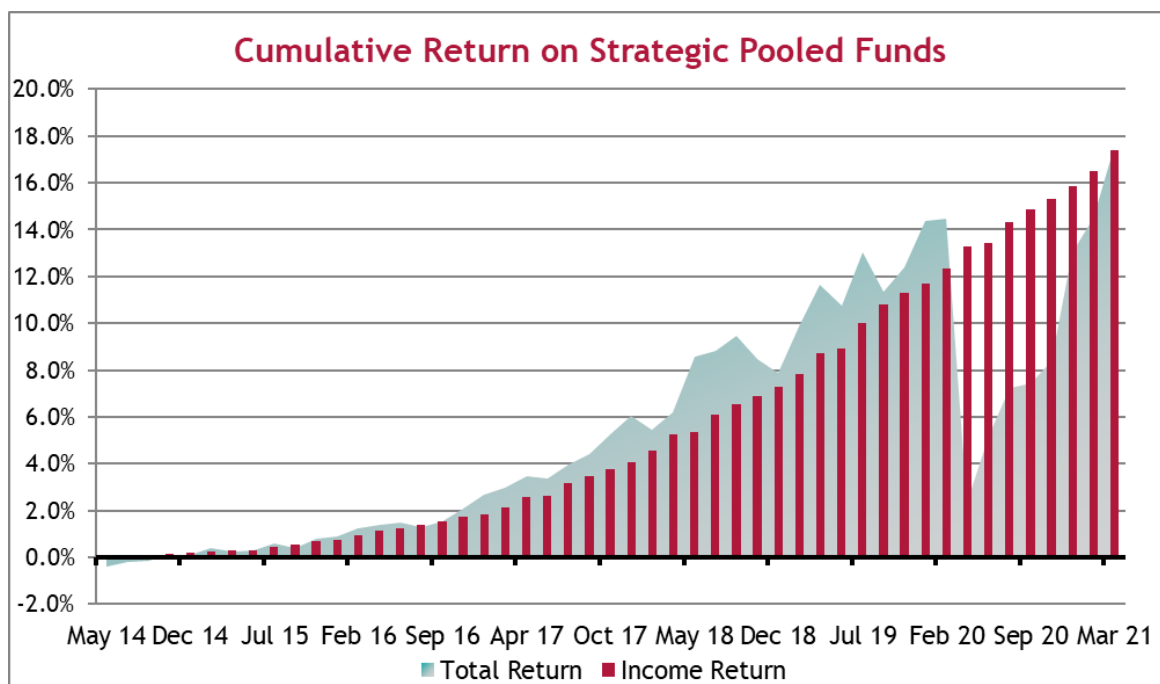
* excludes £10.4m invested on behalf of Thames Basin Heaths JSPB

42. The County Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.41% pa (per annum) since purchase against the higher yielding strategy target of 4% pa, contributing to a total return of 17.5%.

| Table 7 – Higher yielding investments – income and total returns since purchase | Annualised income return | Total return |
|--|---------------------------------|---------------------|
| | % | % |
| Pooled property funds | 4.16 | 20.0 |
| Pooled equity funds | 5.02 | 18.4 |
| Pooled multi-asset funds | 4.19 | 12.6 |
| Total pooled funds | 4.41 | 17.5 |

Note: excludes the performance related to £10.4m invested on behalf of Thames Basin Heaths JSPB

43. Following advice from Arlingclose, the County Council made prudent income forecasts for 2020/21 to reflect the impact of the pandemic and the challenging market conditions being faced by the investment managers of its pooled funds, identifying that any shortfall at the end of the year to budgeted income would be met from the Covid-19 financial response package. Actual income returns from pooled fund investments were more positive than this prudent forecast resulting in income of £7.1m, which was about 10% lower than in 2019/20. This is compared with the 25% to 30% reduction that could reasonably have been anticipated given the pandemic's impact on property rental income, company dividends and bond yields.
44. The County Council's pooled fund investments continue to deliver income returns far in excess of what could be generated from cash investments and in line with the County Council's agreed objective of targeting income of 4% pa from its higher yielding strategy.
45. The cumulative total return from the County Council's investments in pooled equity, property and multi-asset funds since purchase is shown in the following graph. This highlights that the County Council has benefited from strong and steady income returns over time and the way that capital values have recovered since March 2020.



Note: the graph above excludes the performance related to £10.4m invested on behalf of Thames Basin Heaths JSPB

46. The County Council is aware of the risks involved with investing in pooled funds that hold underlying investments in bonds, equities, property and other financial instruments. As a result, 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 approximately £5m and it is proposed to increase this to £6.25m. This equates to 2.5 % of the total earmark of £250m (in line with the recommendation to hold reserves of 2.5% for the general fund balance).
47. In addition to the risk of realising a capital loss, the IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five year statutory override was put in place for local authorities that exempts them from complying with this requirement.
48. Pooled fund investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the County Council’s investment objectives is monitored regularly and discussed with Arlingclose.

Financial Implications

49. The outturn for debt interest paid in 2020/21 was £13.0m against a budgeted

£13.2m on an average debt portfolio of £267.4m.

50. The outturn for investment income received in 2020/21 was £13.17m. Excluding the £2.9m gain made by the County Council from the sale of bonds from its portfolio of investments targeting higher yields the investment income was £10.23m on an average investment portfolio of £485m giving a yield of 2.11%. By comparison, investment income received in 2019/20 was £13.4m on an average portfolio of £617m with a yield of 2.17%.

Non-Treasury Investments

51. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the County Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in Ministry of Housing, Communities & Local Government's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
52. This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.
53. The County Council's existing non-treasury investments are listed in Table 8.

| Table 8 – Non-treasury investments | 31/03/21 Asset value £m | 31/03/21 Rate % |
|---|-------------------------------|-----------------------|
| Loans to Hampshire based business | 9.5 | 4.00 |
| Joint venture recruitment agency | 0.2 | 5.00 |
| Total | 9.7 | 4.02 |

Compliance Report

54. The County Council confirms compliance of all treasury management activities undertaken during 2020/21 with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.
55. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 9.

| Table 9 – Debt limits | 2020/21 Maximum | 31/03/21 Actual | 2020/21 Operational Boundary | 2020/21 Authorised Limit | Complied? |
|------------------------------|----------------------------|----------------------------|---|---|------------------|
| | £m | £m | £m | £m | |
| Borrowing | 279 | 258 | 730 | 800 | ✓ |
| PFI and Finance Leases | 150 | 141 | 150 | 180 | ✓ |
| Total debt | 429 | 399 | 880 | 980 | ✓ |

Treasury Management Indicators

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

Interest rate exposures

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

| Table 10 – Interest rate risk indicator | 31/03/21 Actual | Impact of +/-1% interest rate change |
|--|----------------------------|---|
| Sums subject to variable interest rates | | |
| Investment | £262m | +/- £2.6m |
| Borrowing | £2m | +/-£0.0m |

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

Maturity structure of borrowing

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

| Table 11 – Refinancing rate risk indicator | 31/03/21 Actual | Upper Limit | Lower Limit | Complied |
|---|------------------------|--------------------|--------------------|-----------------|
| Under 12 months | 3% | 50% | 0% | ✓ |
| 12 months and within 24 months | 3% | 50% | 0% | ✓ |
| 24 months and within 5 years | 11% | 50% | 0% | ✓ |
| 5 years and within 10 years | 21% | 75% | 0% | ✓ |
| 10 years and within 20 years | 52% | 75% | 0% | ✓ |
| 20 years and within 30 years | 9% | 75% | 0% | ✓ |
| 30 years and above | 0% | 100% | 0% | ✓ |

59. The County Council holds £20m of LOBO (Lender’s Option Borrower’s Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. If not repaid before maturity, these loans have an average duration to maturity of 13 years (minimum 6 years; maximum 24 years).

Principal sums invested for periods longer than a year

60. The purpose of this indicator is to control the County Council’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

| Table 12 – Price risk indicator | 2020/21 | 2021/22 | 2022/23 |
|---|----------------|----------------|----------------|
| Actual principal invested beyond year end | £260m | £215m | £205m |
| Limit on principal invested beyond year end | £340m | £330m | £330m |
| Complied? | ✓ | ✓ | ✓ |

61. The table includes investments in strategic pooled funds of £183m as although these can usually be redeemed at short notice, the County Council intends to hold these investments for at least the medium-term.

Other

CIPFA consultations

62. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee’s recommendation that the prudential framework should be further tightened following continued borrowing by some

authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

63. In the Prudential Code the key area being addressed is the statement that “local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed”. Other proposed changes include the sustainability of capital expenditure in accordance with an authority’s corporate objectives, such as recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the “gross debt and the CFR” with the liability benchmark as a graphical prudential indicator.
64. Proposed changes to the Treasury Management Code include requiring job specifications and “knowledge and skills” schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

IFRS 16

65. CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2022/23.

Consultation, Equalities and Climate Change Impact Assessment

66. This report deals with the treasury management outturn position for 2020/21, which is an end of year reporting matter and therefore no consultation or Equality Impact Assessments are required.
67. 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°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
68. This report deals with the outturn position for the treasury management aspect of the County Council’s business. 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.

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

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents

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

Document

Location

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

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

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of the Local Government Act 1972.

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