

HAVANT BOROUGH COUNCIL
PUBLIC SERVICE PLAZA
CIVIC CENTRE ROAD
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Havant
BOROUGH COUNCIL

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AUDIT AND FINANCE COMMITTEE AGENDA

Membership: Councillor Inkster (Chairman)

Councillors Briggs (Vice-Chairman), Guest, Keast, Kennett, Linger, Robinson and Francis

Meeting: Audit and Finance Committee

Date: Wednesday 27 April 2022

Time: 5.00 pm

Venue: Hurstwood Room, Public Service Plaza, Civic Centre Road,
Havant, Hampshire PO9 2AX

The business to be transacted is set out below:

Kim Sawyer
Chief Executive

19 April 2022

Contact Officer: Emma Carlyle 023 9244 6151
Email: emma.carlyle@havant.gov.uk

Public Attendance

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Can Councillors Please Submit Any Detailed Technical Questions On The Items Included In This Agenda To The Contact Officer By 12 Noon On Friday, 22 April 2022

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To receive and record any apologies for absence.	
2 Minutes	1 - 2
To approve the minutes of the previous meeting which took place on the 8 th December 2021.	
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To receive any declarations of interest from Members.	
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GENERAL INFORMATION

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This agenda and its accompanying reports can also be found on the Havant Borough Council website: www.havant.gov.uk

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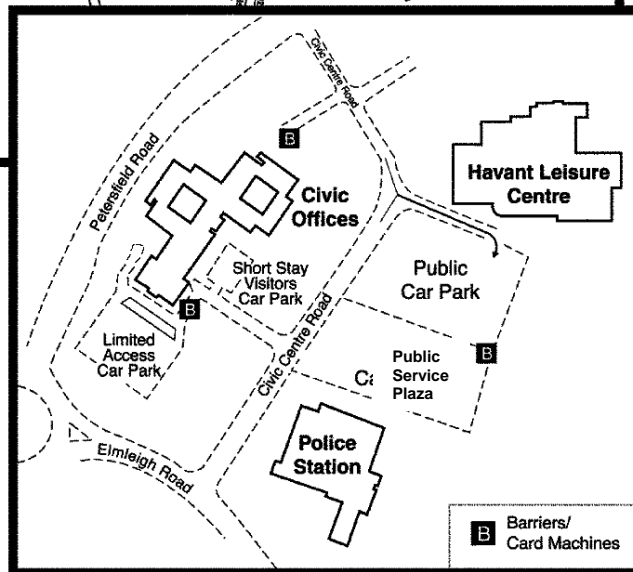
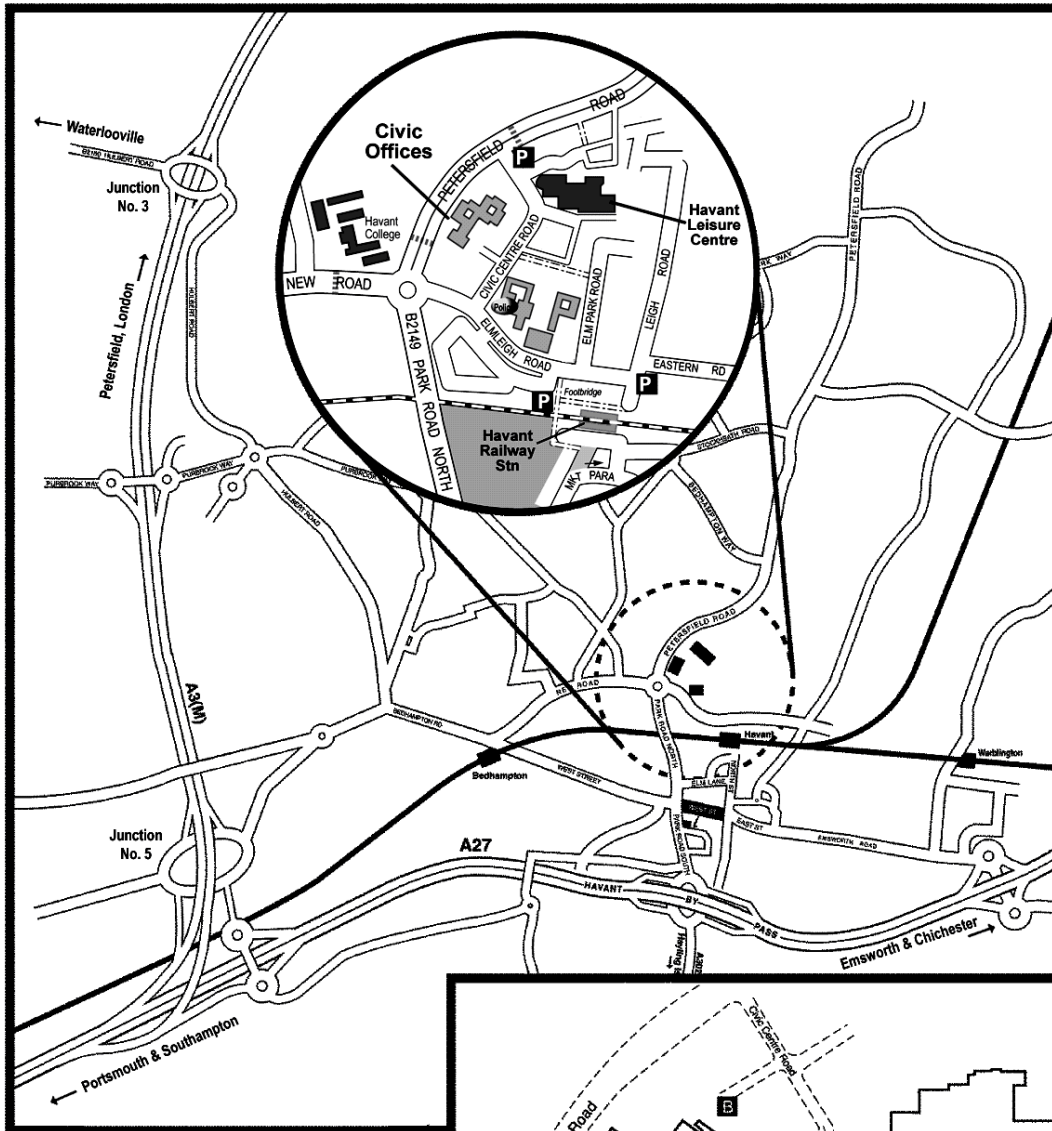
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Havant

BOROUGH COUNCIL

Civic Offices, Havant, Hants, PO9 2AX
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HAVANT BOROUGH COUNCIL

At a meeting of the Audit and Finance Committee held on 8 December 2021

Present

Councillor: Inkster (Chairman)

Councillors: Briggs (Vice-Chairman), Keast, Kennett, Linger and Francis

Other Councillor(s):
Councillors

23 Apologies for Absence

Apologies were received from Councillors Denton and Robinson.

24 Minutes

The Minutes of the meetings of the Audit and Finance Committee held on 15 September 2021 were agreed as a correct record and signed by the Chairman.

25 Declarations of Interests

There were no declarations of interest.

26 Internal Audit Progress Report - Matthew Tiller / Mark Norton / Antony Harvey

The Committee considered the revised report, circulated as a supplementary prior to the meeting. An up to date analysis of the audit reviews was circulated at the meeting.


Antony Harvey and Mark Norton of the Southern Internal Audit Partnership and the Deputy Section 151 Officer answered questions relating to the revised report and analysis.

RESOLVED that

- (a) The Heads of Service for Building Control and Property Management be invited to attend the next Audit & Finance Committee to explain the delays identified in the submitted report and analysis; and
- (b) that the Internal Audit Progress Report November 2021 as submitted be noted.

The meeting commenced at 5.00 pm and concluded at 5.19 pm

.....
Chairman



Havant Borough
Council
Audit planning report
Year ended 31 March 2021

November 2021



Members of the Audit and Finance Committee

Havant Borough Council
Public Service Plaza
Civic Centre Road
Havant
PO9 2AX

26 November 2021

Dear Audit and Finance 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 auditor. Its purpose is to provide the Audit and Finance 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 new 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 the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Finance 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 8 December 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

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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 and Finance Committee and management of Havant Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Finance Committee, and management of Havant Borough 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 and Finance Committee and management of Havant Borough 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 and Finance 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
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus.	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. 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 the significant risk at the Council relates to the improper capitalisation of revenue expenditure.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus.	As identified in ISA240, 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. We identify and respond to this risk on every engagement.
Valuation of Investment Properties	Significant risk	No change in risk or focus	The fair value of Investment Properties represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. Uncertainty continues beyond the balance sheet date with changes to consumer patterns. Rental income is expected to fall as tenants may default on their rents and seek to negotiate rent reductions as the tenants can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations.

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 and Finance 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
Page 8 Valuation of Land and Buildings	Inherent Risk	Reduction in risk on assets valued at Existing Use Value (EUV) method. No change in risk or focus for assets valued at Depreciated Replacement Cost (DRC)	<p>The value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>In the prior year, the valuation of land and buildings valued with reference to market factors were considered to be areas of significant risk. As there is less uncertainty arising from Covid-19 for valuations based on Existing Use Value compared with the situation at 31/03/2020, and as no significant issues were identified through our prior year audit work, we have lowered the risk for 2020/21.</p>
	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 liability 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 and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>
	Inherent risk	New area of focus for 20/21	<p>The Council has received a significant level of government funding in relation to Covid-19. There is a need for the Council to ensure that it has recognised and accounted for these grants appropriately, and where recognised properly taking into account any associated restrictions and conditions.</p>

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 and Finance 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
Going concern	Area of audit focus	No change in risk or focus	<p>There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council 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 on the wider economy, there is a need for the Council to ensure its going concern assessment, including its supporting cashflow forecast, is robust and comprehensive. The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment, and in particular highlights any material uncertainties it has identified.</p> <p>In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit and we need to ensure we comply fully with the requirements of the revised standard.</p>

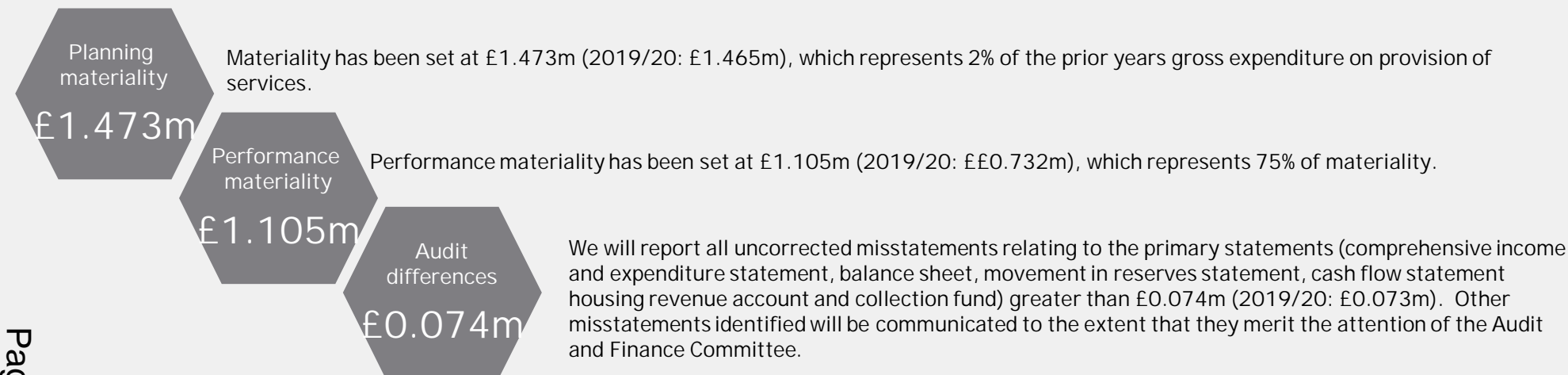
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Accounting Estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard 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 the degree of estimation uncertainty. The changes to the standard may affect the nature and extent of information that we may request, and will increase the level of audit work required.

Overview of our 2020/21 audit strategy

Materiality



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 the Council's financial statements for 2020/21. We are also required to report a commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on value for money below and in Section 03, highlighting the changes included in the NAO's Code of Audit Practice 2020.

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

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

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

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

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

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to assess independently the risks associated with providing an audit opinion, and to undertake appropriate procedures in response to that assessment. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditor's assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit, with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. PSAA have communicated to all opted-in bodies that there is likely to be a variation for the impact of the new Code of Audit Practice 2020, and the implementation of the revised auditing standards on estimates. Therefore to the extent these are relevant in the context of Havant Borough Council's audit, we will discuss these with management as to the impact on the scale fee.

The Accounts and Audit (Amendment) Regulations 2021 have amended the dates for publishing accounts for the year ended 31 March 2021. They are due to be published by the Council by 31 July 2021, and then again by 30 September 2021 with the audit opinion if it has been given.

Due to the late finalisation of the 2019/20 accounts in July 2021, we have not been able to schedule an audit to meet the 30 September date. We have therefore agreed with the Council that the audit will commence in November 2021. As at the time of writing this audit plan, the Council is yet to publish its financial statements and advertise the inspection period. We will consider where any updates are required to our planned procedures when the published version is available.

Overview of our 2020/21 audit strategy (continued)

Value for money conclusion

One of the main changes in the NAO's 2020 Code is in relation to the value for money conclusion. We include details in Section 03 but in summary:

- We are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on VFM and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will be required to provide a commentary on the Council's arrangements against three reporting criteria:
 - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
 - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
 - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Page 12 Within the audit opinion we will still only report by exception where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The commentary on arrangements will be included in a new Auditor's Annual Report. For audits of the year-ended 31 March 2021, this is required to be published no later than 3 months after the opinion on the financial statements has been issued.

Fees

We remain in discussion with the Council about our proposed increase to the scale fee for 2019/20 audit, and will then need to submit this to the PSAA. We have indicated elements of our submission to be recurrent.

We submitted our proposal to management on 4 August 2021, and despite repeated requests have not had any feedback from management. Therefore, we are unable to provide a clear indication of proposed fees for the 2020/21. However, as mentioned on page 9, PSAA have communicated to all opted-in bodies that fees are expected to increase for the impact of the new Code of Audit Practice 2020 and the new auditing standards for estimates. PSAA have also increased the scale fee variation rates have also increased by 25%.



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02 Audit risks



Our response to significant risks

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

<p>Inappropriate capitalisation of revenue expenditure</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 and expenditure accounts. We are yet to receive the 20/21 draft accounts but we are focusing our testing on capital additions to Property, Plant and Equipment (PPE) (£1.981m in 2019/20) and Revenue Expenditure Funded by Capital under Statute (REFCUS) (£1.159m in 2019/20).</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>We have assessed that the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing. We believe the significant risk manifests itself within PPE additions and REFCUS.</p> <p>The manipulation of capitalising expenditure could occur through management override of controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test PPE additions using lowered testing thresholds, to ensure they are appropriately supported by documentary evidence, and that the expenditure incurred and capitalised is clearly capital in nature; • Test REFCUS expenditure using lowered testing thresholds, to confirm it is appropriate for the expenditure incurred to be funded from capital sources; and • Use our data analytics tools to identify and understand the basis for any significant journals transferring expenditure from non-capital codes to PPE additions or from revenue to capital codes on the general ledger at the end of the year.

Our response to significant risks (continued)

Misstatements due to fraud or error

What is the risk?

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

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

We have considered the areas in which management could seek to override controls at Havant Borough Council, and this had fed into our consideration of the risk of fraud in revenue and expenditure recognition as set out on page 12.

What will we do?

We will:

- Enquire 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 the effectiveness of management's controls designed to address the risk of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including:
 - Testing of journal entries and other adjustments in the preparation of the financial statements;
 - Reviewing accounting estimates for evidence of management bias; and
 - Evaluating the business rationale for significant unusual transactions.

Our response to significant risks (continued)

Valuation of Investment

Page 15

Financial statement impact

The fair value of investment properties in 2019/20 was £32.501m

What is the risk?

The fair value of Investment Properties represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. Uncertainty continues beyond the balance sheet date with changes to consumer patterns. Rental income is expected to fall as tenants may default on their rents and seek to negotiate rent reductions as the tenants can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations.

What will we do?

Our approach will focus on:

- Considering the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer;
- Testing that accounting entries have been correctly processed in the financial statements.

Additional Covid-19 procedures in response to our risk include:

- Ensure the appropriate disclosure has been made in the accounts concerning any material uncertainty, including in the Note 'Assumptions made about the future and other sources of estimation uncertainty', if such caveats are included in the valuer's report;
- Obtain input from EY Real Estates, our internal specialists on asset valuations for Investment Properties, including inputs on market sentiment and how it has been reflected in the estimated rental values/yields.

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 43.

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 Land and Buildings

The value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What will we do?

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; and
- Test accounting entries have been correctly processed in the financial statements.
- As with valuation of investment property, 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 43.

Other areas of audit focus

What is the risk/area of focus?

Pension Liability Valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £44.990m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

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

What will we do?

We will:

- Liaise with the auditors of Hampshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Hampshire County Council.
- Assess the work of the Pension Fund actuary (AON Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

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

As with valuation of investment property, 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 43.

The revised standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Based on recent audits we have performed, neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements.

We will therefore modify our approach compared to prior years. This will involve the use of our actuarial specialists to create our own estimate of the gross pension liability. This is one of the three specified methods for gaining assurance within the ISA.

Other areas of audit focus (continued)

What is the risk/area of focus?

Accounting for Covid-19 Government Grant

The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated rules, restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

Page 19 Going Concern disclosures

There is a presumption that the Council will continue as a going concern in the foreseeable future. However, the Council is still 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 Council to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Council is 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.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

What will we do?

We will consider the Council's judgement on the grants it received in relation to whether it is acting as:

- An Agent, where it has determined that it is acting as an intermediary; or
- A Principal, where the Council has determined that it is acting on its own behalf.

Where this is as principal, we will evaluate whether any restrictions or conditions have been properly considered in recognising the grant.

We will also seek to ensure that the local government income compensation scheme for lost sales, fees and charges, has been claimed and recognised in accordance with scheme rules.

We will:

- Challenge management's identification of events or conditions impacting going concern.
- Test management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Review the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern including an assessment of any underlying need to borrow.
- Undertake a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenge the disclosure made in the accounts in respect of going concern and any material uncertainties.

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 44.



03

Value for Money Risks





Value for money

The Council's responsibilities for value for money

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

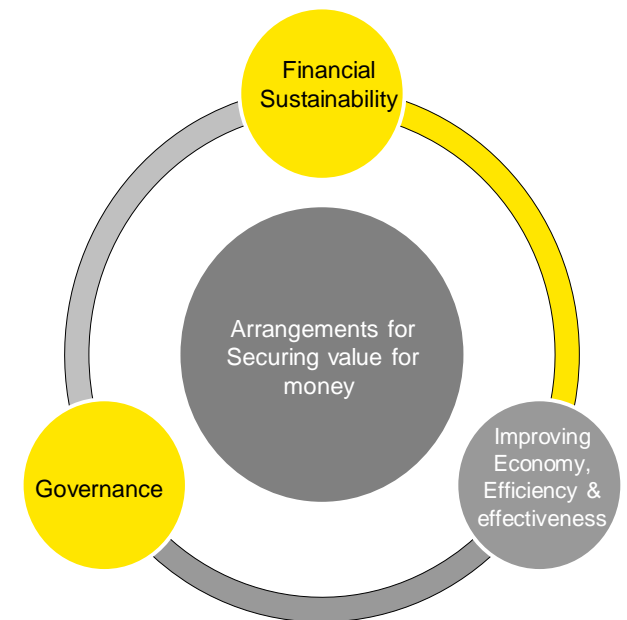
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its 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 responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has 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 has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Council ensures that it makes informed decisions and properly manages its risks; 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.





Value for money (continued)

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 statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies and
- Any other evidence source that we 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. 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, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.



Value for money (continued)

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 and Finance 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

Our assessment for the Council of the risk of significant weaknesses in the arrangements supporting each of the specified reporting criteria is still in progress. Our assessment to date has focused on a combination of:

- Cumulative audit knowledge and experience.
- Review of Council committee reports,
- Review of other documentary evidence available on the Council's website.
- Consideration of financial and performance reporting and outcomes for the year.
- Regular engagement with Council management.

This work is currently ongoing but to date we have not identified a risk of significant weakness.



04

Audit materiality

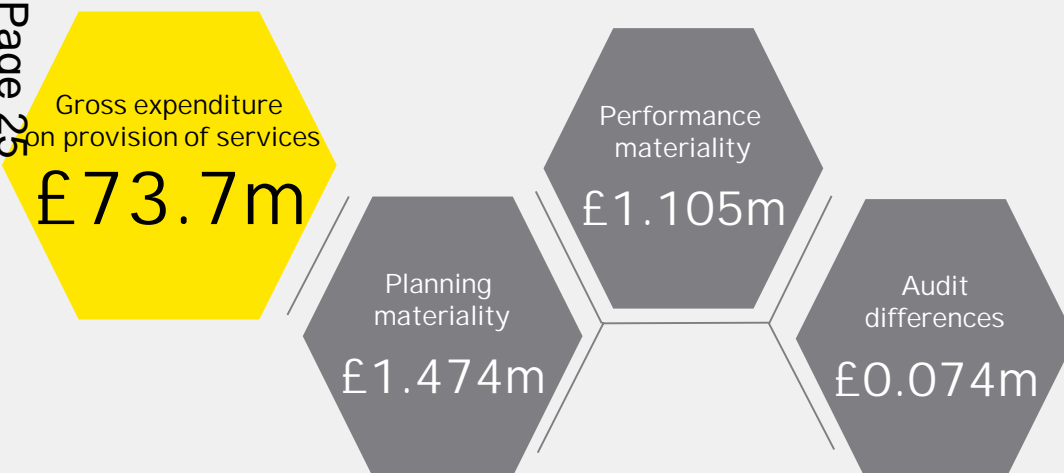


Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £1.474m. This represents 2% of the Council's prior year gross expenditure on provision of services. We believe this to be the appropriate measurement basis as the Council is expenditure driven in delivering services to its residents as opposed to the income or other available measurement bases. We consider a range of 0.5% - 2% which is an industry benchmark. We have used the higher end of the range as the Council has historically maintained a high level of revenue reserves, achieved financial performance targets and has minimal external financing. This 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 and Finance 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 £1.105m which represents 75% of planning materiality. While there were still a number of issues and errors experienced in the prior year audit, our initial judgement is that the majority were in areas we have identified as significant risks or areas of focus and not in routine processes. Therefore, the risk of repetition will be addressed through that risk assessment. We will keep this judgement under review.

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.

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 and Finance Committee, or are important from a qualitative perspective.

Specific materiality – We can set a lower materiality for specific accounts disclosure e.g. remuneration disclosures, related party transactions and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. Where we do this we will notify you.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

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

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

As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

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 and Finance Committee.

Internal audit:

We will meet with the Head of Finance and 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:

Kevin Suter
Associate Partner*

Jason Jones
Manager

Fahad Ijaz
Assistant Manager

Specialists

- EY Real Estates
- Actuaries

* Key Audit Partner

Use of specialists

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

Area	Specialists
Valuation of Land and Buildings and Investment Properties	EY Valuations Team
Pensions disclosure	EY Actuaries

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. 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 and Finance Committee and we will discuss them with the Audit and Finance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit & Finance Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	November	8 December 2021	Audit Planning Report
Year end audit Audit Completion procedures	December - January		
	April	27 April 2022	Audit Results Report Audit opinions and completion certificates Annual Auditor's Report including commentary on VFM



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08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in 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 the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>The overall assessment of threats and safeguards;</p> <p>Information about the general policies and process within EY to maintain objectivity and independence.</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ 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, the Council has yet to respond to our fee proposals from the 2019/29 audit, which were submitted to management on 4 August 2021. This may become a threat to independence, and we will update the Committee if appropriate.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with any policies that you have approved. When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. At the time of reporting, there are no proposed non-audit services.

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.

Relationships, services and related threats and safeguards

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>



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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 Housing, Communities and Local Government.

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

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
PSAA Scale Fee	36,036	36,036	36,036
Covid 19 – Going Concern and consultation (1)	2,500	N/A	2,500
Covid 19 – increased property valuation risk (1)	15,000	N/A	15,000
Group Account Consideration (1)	N/A	N/A	500
Value for Money work (1) (2)	6,000	N/A	3,528
Impact of new accounting requirements of ISA 540 (2)	2,500	N/A	-
Additional work on aspects of housing benefit income and expenditure which would previously have been performed as part of HB certification (1)	382	N/A	382
CIES Restatement (1)	-	N/A	1,500
Significant difficulties encountered during the audit (1)	-	N/A	17,229
<i>Scale fee plus in-year variations</i>	62,418	36,036	76,675
Scale fee rebasing (3)	34,998	34,998	34,998
Total fees (exc. VAT)	97,416	71,034	111,673

Notes:

(1) The 2019/20 Code work includes a proposed additional fee of £40,649, for additional work undertaken in relation to going concern, property valuations, group accounts, value for money consideration, CIES restatement, difficulties encountered during the audit and housing benefit income and expenditure. As noted elsewhere within this report, management have yet to respond to the fee proposal made on 4 August 2021. This additional fee will then be subject to approval from PSAA. For 2020/21 we have included an estimate of this fee where we expect similar additional work to be performed.

(2) Minimum additional fee prescribed by PSAA for 2020/21.

(3) 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. This was communicated in our 2019/20 Annual Audit Letter.

We note that PSAA's rates for scale fee variations have increased by 25% year on year.

The agreed fee presented is based on the following assumptions:

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

The outline timetable on page 31 is contingent on the above factors

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



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

Appendix B





Required communications with the Audit Committee

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



Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Finance 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 – November 2021
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 - April 2022

Required communications with the Audit Committee (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 - April 2022
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 - April 2022
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Finance 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 - April 2022
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 - April 2022

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 	Audit Planning Report - November 2021 and Audit results report - April 2022
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 - April 2022
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 and Finance 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 and Finance Committee may be aware of 	Audit results report - April 2022
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Audit results report - April 2022
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - April 2022
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - April 2022
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 - April 2022
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 - November 2021 Audit results report - April 2022

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

HAVANT BOROUGH COUNCIL

Audit and Finance Committee

27th April 2022

STATEMENT OF ACCOUNTS 2020/21 AND LETTER OF REPRESENTATION – HAVANT BOROUGH COUNCIL

Chief Finance Officer

FOR DECISION

**Portfolio: Portfolio Holder for Finance
Cllr Inkster**

Key Decision: No

1.0 Purpose of Report

- 1.1. To present the audited Statement of Accounts 2020/21 for approval and signing.

2.0 Recommendation

- 2.1. That the Committee agree the Statement of Accounts for 2020/21, that the Chairman certifies the approval by signing the relevant page of the accounts and the Chief Finance Officer certify the approval of the Accounts by signing the relevant pages of the Accounts
- 2.2. That the Committee agree the Letter of Representation, and the Chairman of the Committee and Chief Finance Officer sign the letter.

3.0 Executive Summary

- 3.1. The Council is required to approve the audited Statement of Accounts for the financial year ending 31st March 2021.
- 3.2. The Council is also required to respond formally to the Audit Results Report as issued by the external auditors, this response is provided within the Letter of Representation.

4.0 Additional Budgetary Implications

4.1. None

5.0 Background

5.1. The Accounts and Audit Regulations 2015 require the Chief Finance Officer to first sign the accounts no later than the 31st July and certify that they present a true and fair view of the financial position of the Council at the end of the year to which it relates and its income and expenditure for that year. The Chief Finance Officer is required to recertify the presentation of the accounts for approval by the Audit and Finance Committee.

5.2. The accounts have been audited by Ernst & Young and their conclusions have been presented to the Committee. The Audit report outlines the findings of the audit and corrections which were required.

5.3. The Letter of Representation is the Council's formal response to the Audit Results report. It outlines how the Council has complied with its statutory duties.

5.4. The draft Letter of Representation is attached as Appendix B to this report.

6.0 Resource Implications

6.1. Financial Implications - None

6.2. Human Resources Implications - None

7.0 Legal Implications

7.1. If the Annual Audit Report and Statutory Accounts are not noted and agreed, the Council will not meet its statutory obligations to publish audited accounts.

8.0 Communication

8.1. The Statutory Accounts and Annual Report will be made public on our website.

9.0 Appendices:

Appendix A: Draft Statement of Accounts 2020/21

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Havant Borough Council

**FINANCIAL REPORT AND
STATEMENT OF
ACCOUNTS**

2020/21

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Introduction

The Statement of Accounts for Havant Borough Council for the year ended 31 March 2021 has been prepared and published in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (“the Code”) issued by the Chartered Institute of Public Finance and Accountancy. The Code is based on International Financial Reporting Standards, as adapted for the UK public sector under the oversight of the Financial Reporting Advisory Body.

The information contained in these accounts can be technical and complex to follow. The aim of this report, therefore, is to provide a narrative context to the accounts by presenting a clear and simple summary of the Council’s financial position and performance for the year and its prospects for future years. This will give electors, local Havant residents, Council Members, partners, other stakeholders and interested parties confidence that public money which has been received and spent, has been properly accounted for and that the financial standing of the Council is secure.

The Accounts and Audit Regulations 2015 came into force on 1 April 2015, setting out the detailed requirements in relation to the duties and rights specified in the Local Audit and Accountability Act 2014. These regulations introduce earlier deadlines for publication of the accounts. The deadline for completion of the accounts for 2020/21 is 1st August for the unaudited statement of accounts and 30 September for the audited statement of accounts. This is a revised deadline for 2020/21 due to global pandemic and subsequent pressures put on Local Authorities. The Council is required to publish unaudited accounts by the 1st August and Audit Committee will need to approve the audited accounts.

As the financial statements demonstrate, the financial standing of the Council is sound. The Council has well established good financial management disciplines and processes and operate in an environment of continuous improvement.

This narrative report is structured as follows:

1. An Introduction to Havant
2. Covid 19
3. Summary of Achievements
4. Governance
5. Summary of the 2020/21 Financial Performance of the Council
6. Strategic Risks
7. Liability for Pensions Costs
8. Future Plans
9. Material assets/liabilities
10. Explanation of the Financial Statements
11. Acknowledgements

1. An Introduction to Havant Borough

The Borough of Havant is nestled between the South Downs and the Solent, covering approximately 55km² of southeastern Hampshire. There are roughly 125,000 people living in the semi-urban borough, which benefits from 60km of coastline and more than 5 times the UK average of green urban space. The borough has a strong history of industry, is home to more than 4,000 businesses, and has excellent road and rail connections to London, Southampton, Portsmouth and Brighton. However there are pockets of deprivation within the borough which score poorly for educational attainment, health and wellbeing.

Havant Borough Council is comprised of 38 councillors (elected by thirds) and operates according to the leader and cabinet model. In 2020-21 the Council has been controlled by a Conservative majority, with two Labour councillors, two UKIP councillors and one Liberal Democrat councillor.

The councillors are supported by 219 full time equivalent members of staff, who co-ordinate the provision of more than 70 services from the Public Service Plaza in the centre of Havant. The Council’s Constitution sets out the committee structure, scheme of delegation and other important regulatory matters, and has been thoroughly reviewed throughout 2020-21 to ensure that it remains an effective, streamlined document.

CONTENTS

The Council's income comes from a variety of sources. Against a backdrop of decreasing funding from central government, the Council has worked hard to continue delivering efficient and effective services to residents and businesses. It is committed to careful and sustainable management of its resources in an upcoming time of change and will prioritise the needs of local people and businesses as it undergoes transformation.

The business case for sharing senior managers across both East Hampshire District Council and Havant Borough Council was agreed by the Council on 30 June 2010. In January 2022 Havant Borough Council and East Hants District Council decided that a partnership was no longer present the best option for a sustainable and successful future and made a business case for ending the partnership. An Interim Chief Executive was appointed as the Chief Executive for Havant.

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2. Covid 19 PANDEMIC

Background

The Covid-19 pandemic has had a considerable impact on the Council. On 30 January 2020, the World Health Organisation (WHO) declared the outbreak of coronavirus a 'public health emergency of international concern'. On 31 January 2020 the first confirmed cases of Covid-19 were recorded in the UK. The Government's lockdown, announced on 23rd March 2020, meant that many of the businesses in the District were forced to close – significantly impacting on the local economy, which in turn impacts on the Council's income. Following the first nationwide lockdown the Government did ease some restrictions and introduced a new tiered based system to contain the virus. However, further nationwide lockdowns were required towards the end of the financial year which further impacted on the Council. Furthermore, the Council has had to put considerable resources into ensuring that residents are safe during this period and that the most vulnerable in our community are cared for. In addition, throughout the period the Council has been providing support to local businesses through the timely and effective distribution of business grants as requested by central Government. The overall impact of Covid-19 on the Council has been not only a reduction of income but also additional cost pressures and while central Government has provided financial support there has been considerable pressure on the Council.

Community Support

The Council, supported by partners such as Community First, has provided support to vulnerable residents throughout the pandemic either through signposting to support available and by ensuring referrals are made to appropriate support networks. The focus has been to protect the 'clinically extremely vulnerable, identified by the NHS (those on the shielded list) but also those not on the shielded list who could potentially be vulnerable due to their age or circumstances such as facing financial hardship. A virtual call centre was established, known as the Local Response Centre (LRC) and staff in the organisation were redeployed to answer calls seven days per week. The shared resource (with East Hants District) was to assist with any support needs such as delivery of food parcels or medicine to those who requested them. All residents in the area received a newsletter advertising the contact details of the call centre and all vulnerable residents on the shielded list received a call from the Council to check whether they needed any assistance. A food hub was also established to ensure food banks were appropriately stocked in the area with Civil Enforcement Officers redeployed to deliver emergency food packages.

Following a request by central Government, anyone presenting as homeless during the lockdown was provided with temporary accommodation regardless of whether there was a legal duty owed to them. To ensure vacancies were available the Council block booked accommodation to ensure space was available and has since been working on plans to ensure people do not return to the streets. In addition, gypsies and travellers are designated as being in a vulnerable group and as such the Council has worked to ensure any temporary sites are available should they be required.

The Council has also supported the establishment of testing centres either run by external parties or most recently establishing a community testing centre manned by Council staff ensuring the effective distribution of rapid lateral flow tests. Further to this the Council has administered the Test and Trace grant scheme providing financial support to residents who have been instructed to isolate as a result of a positive test. Test and Trace support payments have been provided to ensure those residents isolating do not lose out financially or feel they need to stop isolating in order to work. A Council Tax Support Scheme has also been in place for those residents requiring additional financial support as a result of hardship during the pandemic

- Test & Trace grant (mandatory scheme):
- Test & Trace grant (discretionary scheme):
- Council Tax Hardship Support grant: £1.100 million

CONTENTS

Business Support

During the year the Council has been instrumental in ensuring that local businesses are supported through the processing and distribution of grants. The pandemic has had and will continue to have a significant impact on businesses and the economy with the nature and scale of the event being unprecedented. Government has released a package of support which has been developed and implemented quickly. The Government package includes a range of initiatives including loans, grants, extended business rates reliefs and business support tools. An expanded business rates relief scheme has increased the amount of business rate relief to 100% for 2020-21 and broadens the eligibility to include leisure, hospitality, estate and letting agencies and certain gambling establishments. Eligible nurseries also received 100% business rate relief.

In total the Council administered 12 grant schemes as detailed below and gave out over £26 million to over 2500 local businesses during 2020-21 across the business grant schemes.

- Small Business Rate Relief Grant
- Retail, Hospitality and Leisure Grant (£10K)
- Retail, Hospitality and Leisure Grant (£25K)
- Local Authority Discretionary Grant
- Local Restrictions Support Grant (Closed) Addendum
- Additional Restrictions Grant
- Christmas Pub Grant
- Local Restrictions Grant (Open)
- Local Restrictions Grant (Closed)
- Local Restrictions Support Grant (Closed) Tier 4
- Local Restrictions Support Grant (Closed) January 2021
- Closed Business Support

A business support taskforce of Council officers was established who took forward a number of proactive steps to ensure businesses were supported including contacting all businesses directly by email and/or phone, writing directly to all business premises, an intensive communications campaign including electronic e-bulletins and using our network of business contacts, local Councillors and MPs.

In addition, the Council, through the use of Covid marshals and Environmental Health officers has provided support and advice to businesses on Covid restrictions and required social distancing measures, ensuring that businesses were operating in compliance with Covid laws, lockdowns and the tiered system.

Financial Impact

The Council has had considerable financial pressure as a result of the pandemic and potentially will impact on the longer-term financial sustainability of the Council which will become clearer during the recovery period post pandemic. The combination of additional expenditure, lost income and economic uncertainty is a significant challenge and officers have undertaken a programme of work to assess the likely impacts in developing our response. The Council has completed regular returns to central Government detailing the financial impact of the pandemic both on lost income and additional expenditure.

Central Government has provided a number of financial grants that have allowed the Council to mitigate the financial impact of the pandemic as below:

- Covid (unringfenced) grant: £2.181 million

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- Reopening High Streets grant: £0.113 million
- Compliance and Enforcement grant: £0.067 million
- Emergency Assistance grant (Defra): £0.136 million
- Rough Sleepers emergency funding: £0.002 million
- Contain Outbreak Management fund: £0.126 million
- Clinically Extremely Vulnerable fund: £0.057 million
- National Leisure Recovery fund: £0.265 million
- Sales, Fees and Charges compensation scheme: £1.042million

The Council has suffered substantial losses across many of its largest streams of income. These include parking, leisure, and property. However, the Council has continued to run services throughout the pandemic including, for example, regulatory services such as Planning and Building Control and this has helped to mitigate the financial impact. As with any recession, investment income is anticipated to reduce which will create further pressures on the Council's finances. On the expenditure front some of the key areas of additional pressure have included accommodation and support for rough sleepers, support for our community and support for our leisure services, and again these have been partially mitigated through the use of grant funding. Due to the Council's reliance on commercial income and fees and charges and consequently its exposure to the economic cycle, the Council has sought in recent years to build up the general fund balance to ensure the Council is financially resilient in a recession. Moving forward, the Council has reset its Medium-Term Financial Strategy (MTFS) in recognition of the impact of the pandemic and the Council's strategic objectives and set a balanced budget for 2021-22. The Covid-19 crisis has meant that the Council has had to review what its most critical services are, and which are required to still be operational even during a global pandemic. The changing environment and "new normal" in will require the Council to review the services it provides, its delivery models and the outcomes that are of the highest priority. This will also require the Council to review the structural position of its budget and how that needs to change going forward.

Service Impact

Covid-19 has changed the way the Council works in a very short space of time and the focus during the pandemic has been are making sure officers are able to work from home safely, supported in adapting to the changing working conditions and ensuring that resources are used most effectively by identifying opportunities for redeployment to those service areas that need it most.

Corporately, the majority of staff have been home based for the financial year with only a small selection of staff who cannot be home based working in the Council offices in a covid secure environment. Increased communications with staff through virtual meetings have been held as well as wellbeing support available for staff to be able to access.

Service delivery has continued throughout the pandemic with all our statutory services continuing to operate. Service changes within Environmental Services were initiated during the lockdowns to ensure that essential elements of waste collection continued. While the Council offices have been closed for the year, Customer Services has remained available via phone and/or email. Regulatory services (Planning, Licensing, Building Control) have been maintained with the utilisation of virtual site visits where necessary. Staff were redeployed, where necessary, to support the Council response to the pandemic, for example, supporting the Local Resource Centre or delivering food parcels.

Through the use of virtual Council meetings all Council business could be conducted remotely, and residents had the option to join the meetings virtually which has resulted in increased participation and numbers attending. Going forward, while entirely virtual meetings would need additional, new legislation it is hoped that meetings being held in a hybrid form (in person and virtual) will increase participation in local democracy.

CONTENTS

Summary

The coronavirus pandemic has had a profound impact on all aspects of life in Havant. Through 2020/21 the Council has adopted a pro-active evidence-led approach to ensure that it responds to the emerging needs of residents and businesses. Going forward the Council will move into a recovery phase and will seek to continue to provide support to residents, businesses, and officers to ensure that the area recovers as soon as possible from this once in a generation global event.

3. Summary of Achievements

The Corporate Strategy

Havant Borough Council sets out its strategic aims and objectives in its Corporate Strategy, which articulates its mission 'enhance the lives of our residents, businesses and visitors'. The strategy, is composed of four interlinked themes:

- A fit for purpose Council
- A safer, healthier and more active Havant
- A thriving economy with infrastructure to support our ambitions
- An environmentally aware and cleaner Havant.

The delivery of this new Corporate Strategy is supported by a Corporate Action Plan which detail the key corporate objectives and commitments made for the forthcoming financial year.

The Corporate Strategy is supported by a policy and strategy framework which includes the Local Plan and provides additional operational context to our overarching strategic objectives.

The Council has achieved many of the performance targets it set for 2020/21 as well as delivering many projects and initiatives and this is alongside the Council response to the pandemic as detailed above.

A fit for purpose Council

During 2020/21:

- Approved a new Constitution to support the council's operations and ensuring efficient governance. The new Constitution provides a clear set of guiding principles for the council allowing the authority to be more agile, cost effective and able to respond to the needs of the community.
- Embarked on the 'Shaping our Future' transformation programme which will enable the Council to achieve its objectives and deliver its new strategies and priorities going forward.

A safe environment, healthier and more active Havant

During 2020/21:

- The Council, supported by partners such as Community First, has provided support to vulnerable residents throughout the pandemic either through signposting to support available and ensuring referrals are made to appropriate support networks. The focus has been to protect the 'clinically extremely vulnerable', identified by the NHS (those on the Shielding List) but also those who could potentially be vulnerable to financial hardship.

A thriving economy with infrastructure to support our ambitions

During 2020/21:

- Supported our local businesses through the timely distribution of government grants and provided business advice to employers throughout the Covid pandemic, including running various campaigns such 'Shop Local' and 'Free After Three'.

CONTENTS

- Took community events online with a virtual jobs fair helping residents look for new work opportunities.

An environmentally aware and cleaner Havant

During 2020/21:

- Appointed a Cabinet led with specific responsibility for Climate in order to develop our Climate Strategy
- Approved the approach regarding the Langstone Flood and Coastal Risk management approach.

Key Business Indicators

The table below contains some of our key corporate performance indicators in 2020-21, with comparison figures from 2019-20 and the average for local authorities in England. In addition, we have sought to improve our performance reporting by adding further key performance measures which we now monitor during the year.

Key Performance Indicator	2019-20	2020-21	National average (source: LG Inform, 2018-19)
Business Rates collection rate	99.2%*	87.05%	98.3%
Council Tax collection rate	96.9%*	94.41%	97.2%
Major planning applications decided within 13 weeks or agreed extension (over 70%)	100%	98%	89%
Minor planning applications decided within 13 weeks or agreed extension (over 65%)		82%	
All planning applications decided within 26 weeks (above 98%)		99%	
Homelessness interventions (above 600 for the year)		960	
Freedom of Information requests responded within statutory deadline (above 95%)		97%	

*Collection rates were impacted by the Covid-19 pandemic which resulted in direct debits being cancelled and enforcement action stalled.

4. Governance

Governance refers to the arrangements put in place to ensure that our intended outcomes are defined and achieved. For example, the Corporate Governance Board meets on a quarterly basis to discuss internal audit, risk management, health and safety, emergency planning, information governance, and any complaints received from the Local Government Ombudsman.

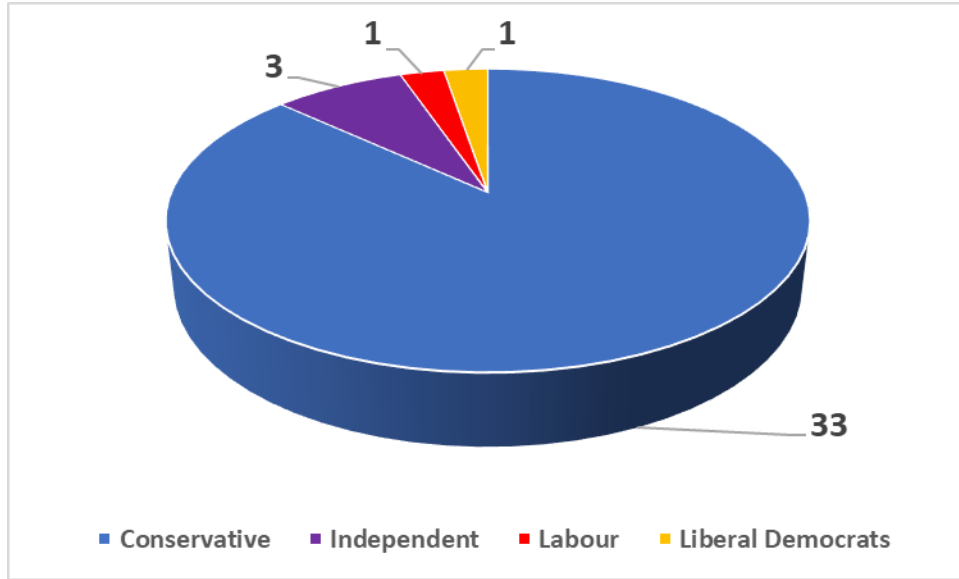
The Council

Havant Borough is made up of 38 councillors elected in thirds, with each Councillor serving a four-year term. Councillors are democratically accountable to the residents of their ward.

The overriding duty of councillors is to the whole community, but they have a special duty to their constituents, including those who did not vote for them.

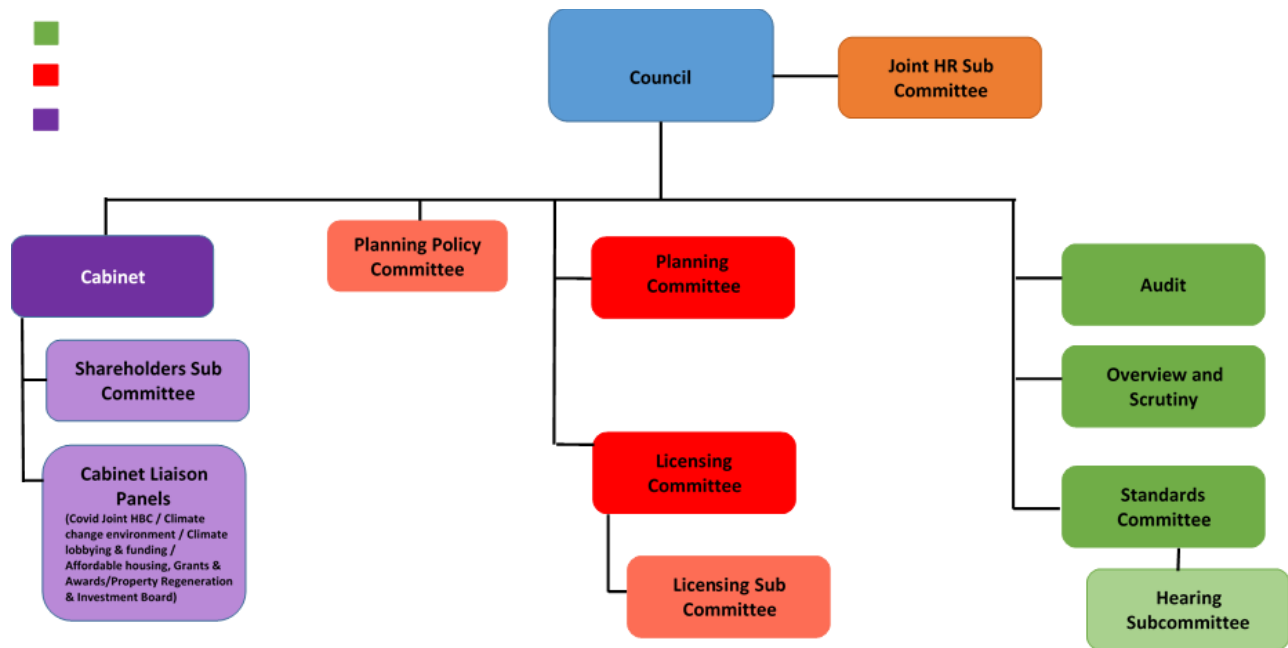
CONTENTS

All councillors meet together for Full Council meetings six times a year. These are held in public, and are used to decide the council's **overall** policies and set the budget each year.



The political make up of the members is shown in the table above.

All the Councillors meet together as Full Council and set the policy and budget framework within which the Council operates. Set out below is a diagram of the Decision-Making bodies for Havant Borough Council that were in place during 2020/21.



Cabinet

CONTENTS

Havant Borough runs on a 'Leader and Cabinet' model. This works in the same way as the Prime Minister and Cabinet but on a local scale. The political party which has had the most councillors elected by the public forms the cabinet, and elects one of its members as the Leader (currently Councillor Alex Rennie).

The Cabinet makes collected policy decisions for the council. The Cabinet will be advised and supported in its policy formulation role by Scrutiny and Policy Development Panels, with particular areas of responsibility and encompassing a broad range of opinion and expertise. In addition it is also advised by a number of committees.

The Cabinet has to make decisions which are in line with the council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must be referred to the council as a whole to decide.

Each Cabinet Member is responsible for an area of the council's work, known as portfolios.

Overview & Scrutiny Committee

The Committee is made up of 14 Councillors.

The Committee has the remit to;

- Review and scrutinise the decisions made and performance of the Executive and/or council officers both in relation to individual decisions and the impact of those decisions over time
- Review and scrutinise the performance of the Council in relation to its policy objectives, performance targets and/or particular service areas

Audit Committee

The Committee is made up of 8 Councillors.

The Committee had the remit to.

- provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- to provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

Planning Committee

The Committee is made up of 7 Councillors and normally meets monthly.

The majority of planning applications are dealt with by council officers under delegated powers from the Planning Committee as they are relatively straight forward. Approximately 20% are referred to councillors to make a decision.

The Planning Committee's function is:

- to deal with applications for planning permission and the conduct of planning appeals. It considers the larger more controversial applications.
- Changes of use, for example a building changing from a newsagent to a fish and chip shop, are also deemed to be developments requiring planning consent.

The committee also has an enforcement role in ensuring that planning conditions are complied with and that unacceptable development which has taken place without the necessary planning permission is removed or ceased, and is responsible for the protection and preservation of trees.

Licensing Committee

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The Committee is made up of 15 Councillors and meets as required. The Licensing Committee is responsible for licensing and registration functions.

The full list of matters includes:

- hackney carriage and private hire taxis (and drivers);
- theatre licences; game dealers;
- entertainment licences; and
- lotteries.

Standards Committee

The Committee is made up of 8 Councillors.

The Standards functions are:

- to promote and maintain high standards of conduct by Members and Co-opted Members of the Council;
- to adopt a Code of Conduct dealing with the conduct expected of Members and Co-opted Members of the Council when acting in that capacity;
- to put in place arrangements to investigate and make decisions on written allegations against Elected Members both at District and Parish level and undertake an overview of complaints handling and Local Government Ombudsman investigations, including the power to make payments or other benefits in cases of maladministration etc.

Planning Policy Committee

The Committee is made up of 10 Councillors and met once during the year.

The Planning Policy Committee functions are:

- to agree the emerging content of the Havant Borough Council Local plan throughout its preparation

Joint HR Committee

The Committee is made up of 5 Councillors from EHDC and 5 Councillors from HBC. The Committee met 3 times during 2020-21.

In addition to the above there are various sub-committees including Constitution, Shareholders and Licensing sub-committee which met as required during the year.

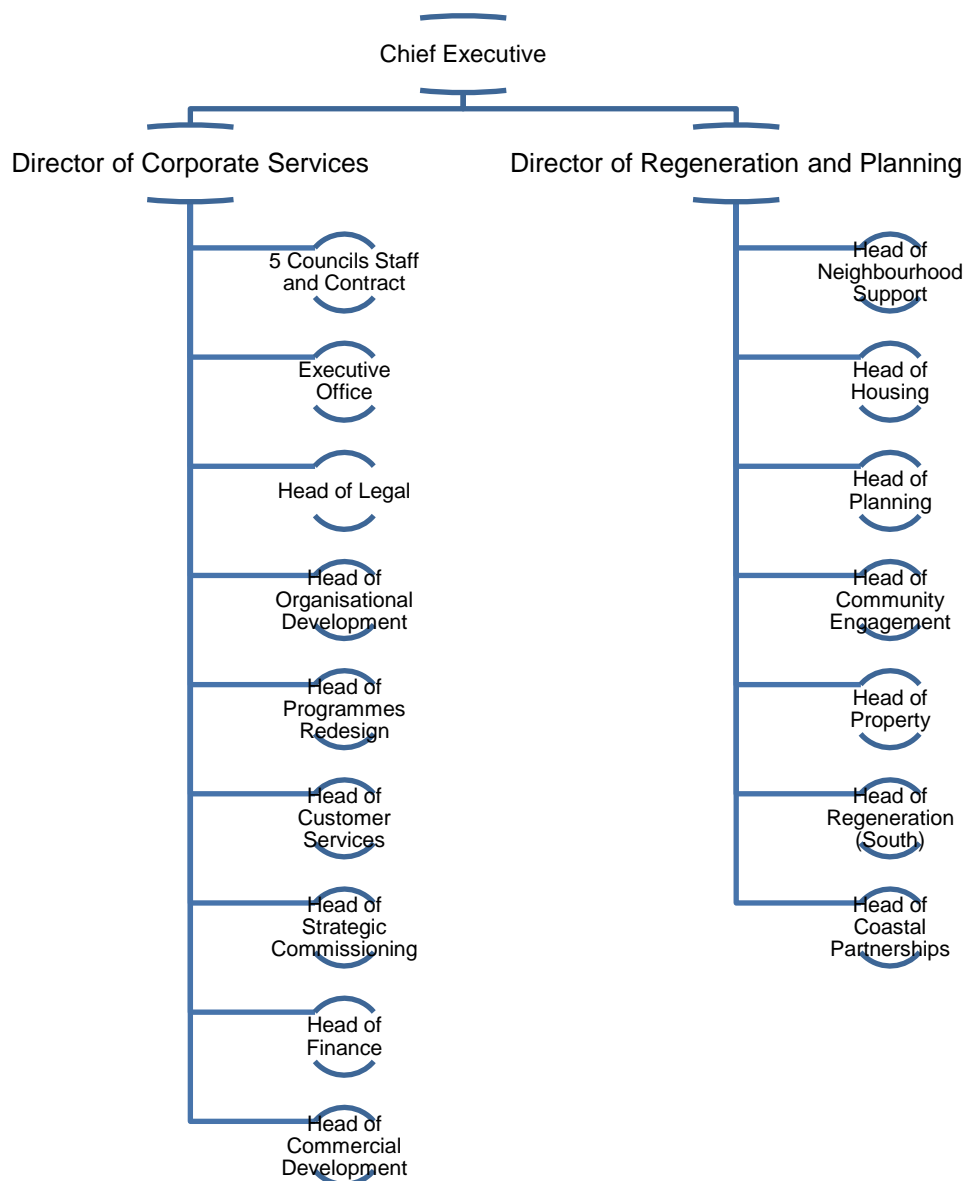
All meeting information (papers and minutes) of all Committee meetings are located on our website:

<https://havant.moderngov.co.uk/mgListCommittees.aspx>

Management Structure

Supporting the work of elected Members is the organisational structure of the Council headed by the Executive Team. This is comprised of East Hampshire District Council's most senior officers. The Council appoints a Monitoring Officer and Chief Finance Officer, as required by law. These officers have responsibility to take action if the Council has, or is about to, break the law or if the Council is about to set an unbalanced budget. Areas of responsibility are shown below:

CONTENTS



Staffing

A summary of the Council's staffing is shown in the table below:

Employees	2019/20	2020/21
Total number of current permanent full and part time employees	248	300
Total number of current temporary / fixed term employees	*	
Total number of employees	248	300
Total number of employees expressed as full time equivalents	219	253

CONTENTS

Posts	2019/20	2020/21
Total number of permanent full and part time posts	266	
Total number of temporary / fixed term posts	*	
Total number of posts	266	
Total number of posts expressed as full time equivalents	235	

*- Not available

Sickness and accident statistics are shown in the table below:

	2019/20	2020/21
Short term sickness (days per FTE)	3.7	1.4
Long term sickness (days per FTE)	2.8	5.3
Overall sickness (days per FTE)	6.5	6.7

5. A Summary of the 2020/21 Financial Performance of the Council

General Fund

A summary of the General Fund position is shown below in the format used for management accounting and reported to Members throughout the year.

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	Final Budget	Outturn	Exceptional items - Variation *		Variation
	£'000	£'000	£'000	£'000	%
Director of Corporate Services					
5 Councils Staff and Contract	622	504		(118)	-19.0%
Executive Office	405	416		11	2.6%
Head of Legal	862	828		(34)	-4.0%
Head of Organisational Development	818	473		(345)	-42.2%
Head of Programmes Redesign	2,799	2,820		21	0.7%
Head of Customer Services	2,793	2,438	(617)	262	9.4%
Head of Strategic Commissioning	3,768	3,692		(76)	-2.0%
Head of Finance	1,833	1,099		(734)	-40.1%
Director of Regeneration and Planning					
Head of Coastal Partnerships	358	193		(165)	-46.1%
Head of Neighbourhood Support	(410)	410		820	-200.0%
Head of Housing	347	290		(57)	-16.4%
Head of Planning	550	329		(221)	-40.2%
Head of Community Engagement	520	435		(85)	-16.3%
Head of Property	(1,473)	(1,361)		112	-7.6%
Head of Regeneration (South)	426	399		(27)	-6.3%
Other Operating I&E (Corporate Pension Costs)	853	(21)		(874)	-102.5%
Total Cost of Services	15,072	12,944	(617)	(1,511)	-10.0%
Interest from Investments	0	0		0	
Interest payments	0	108		108	
Covid Income Support	0	(1,071)	(1,041)	(30)	
Meridian	0	0		0	
Net Cost of Services	15,072	11,981	(1,658)	(1,433)	-9.5%
Funded by:					
Business Rates Retention	(5,605)	(12,868)	(8,623)	1,360	-24.3%
Council Tax Demand on the Collection Fund (inc precepts)	(8,642)	(8,680)		(38)	0.4%
Collection Fund (Surplus)/Deficit	77	77		0	0.0%
New Homes Bonus Grant	(902)	(902)		0	0.0%
General Grants	0	(2,350)	(2,350)	0	
Total Funding	(15,072)	(24,723)	(10,973)	1,322	-8.8%
Net (Surplus) / Deficit	0	(12,742)	(12,631)	(111)	

The General Fund Revenue Budget outturn is a surplus of £0.111m (excluding the exceptional Covid items). The main variances are detailed in the sections that follow:-

Service Area	Variance to budget (£000)	Reasons
5 Councils Contract & Staff	(118)	Reduction in expenditure across salary budget and training/travel expenses
Organisational Development	(345)	Reduction in expenditure across the service as a result of focus on Covid-19 pandemic and therefore reduced spend on planned activities for 2020-21. Reduced recruitment activity within Human Resources as a result of recruitment freeze during first lockdown period and overall reduced recruitment for the remaining year.

CONTENTS

Customer Services	262	Additional expenditure on contract costs within revenue & benefits and customer services including additional costs of delivering the Covid business grant scheme
Finance	(734)	Covid-19 related savings contained within this budget which were identified at the start of the pandemic and utilised to offset the additional expenditure within services. <ul style="list-style-type: none"> • £0.463 million Covid related savings identified across services
Neighbourhood Support	820	Reduction in income across the service as a result of Covid <ul style="list-style-type: none"> • £1.125 million was lost within parking services £0.746 million has been claimed through the Government lost sales, fees and charges scheme. Savings within the service as a result of reduced recruitment activity resulting in salary, NI and pension savings <ul style="list-style-type: none"> • £0.200 million in salary savings
Planning	(221)	Additional savings have been made within the service as a result of reduced activity on areas such as the Local Plan during the year as a result of focus on Covid as well as additional income received in Planning Policy <ul style="list-style-type: none"> • £0.180 million reduced expenditure and additional income in Planning Policy • £0.075 million additional income in Development Management
Community Engagement	(85)	Focus on Covid related activities and use of Covid grants during the pandemic resulting in savings on planned budget spend
Coastal Partnership	(165)	Additional income achieved within the Transport team as well as additional savings in expenditure.

CONTENTS

General Fund: Capital Programme

The General Fund Capital Programme is summarised in the table below:

Havant Borough Council			
Capital Programme Summary			
	2020/21 Original Budget Feb 20 £ (000)	2020/21 Provisional Outturn £ (000)	2020/21 Variance £ (000)
Housing			
Disabled Facilities Grants	1,628	508	(1,120)
Operational Land and Buildings			
HBC Plaza	3,600	0	(3,600)
Developer contributions	1,200	1	(1,199)
Neutrient Neutrality Mitigation	0	290	290
CILfundedHBCownedassets	0	115	115
CILFunded-NonHBCAssets	0	125	125
HaylingIslandBMA	0	418	418
HaylingIsland Strategy	0	168	168
LangstoneFCERM	0	231	231
Broadmarsh Feasibility Study	0	30	30
AcornCentreExtension	0	7	7
Charterhouse Vertidrain	0	7	7
FeasibilityStudyreMUGAHook	0	5	5
Hayling Island Goose Refuge	225		
Sothern Coastal	20	0	(20)
Vehicles and Equipment			
Refurbishment of HBC Play Areas	70	51	(19)
New Allotments	135	0	(135)
IT Equipment			0
Asset Maintenance Management System	35	0	(35)
Building Control - Software	22	1	(21)
Parking Machines			
Total Capital Programme	6,935	1,957	- 4,978
	2019/20 Original Budget Feb 19 £ (000)	2019/20 Provisional Outturn £ (000)	2019/20 Variance £ (000)
Funded By:			
REFCUS (Revenue funded as Capital under Statute)	1,628	634	(994)
External Grants & Contributions	5,045	1,323	(3,722)
Use of Specific Reserves	127	0	(127)
Use of Capital Receipts	135	0	(135)
Borrowing Requirement	0	0	0
Total Funding	6,935	1,957	(4,978)

The outturn on the General Fund Capital Programme is an overall underspend of £4.978 million. The reasons for the significant variances are predominately reduced spend on a number of capital projects in particular around expenditure on CIL as a result of the pandemic and not taking forward the HBC Plaza Development (phase 1).

CONTENTS

6. Strategic Risks

The Council maintains a risk register which details the major corporate risks facing its functionality and the delivery of its corporate objectives. Services maintain their own risk registers and can escalate a risk to the corporate register if necessary.

7. Liability for Pensions Costs

The estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discounts used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The Council's net Pension Liability valued on an IAS 19 basis increased from £44.990 million at 31st March 2020 to £48.508 million at 31st March 2021. It is detailed in Note 8 to the accounts. Gross liabilities have increased by £21.625 million mainly due to changes in the financial assumptions, and the fair value of assets has increased by £18.107 million.

The Council does not operate its own Pension Fund but is part of the Hampshire Local Government Pension Scheme which is administered by Hampshire County Council. Full details of the Pension Scheme and its accounts are available on-line at www.hampshire.gov.uk

8. Future Plans

In common with the rest of local government, the Council has seen a steady reduction in its core funding in recent years. The Government's aim is to phase out non-specific grant funding altogether, instead allowing local authorities to retain a higher proportion of business rates collected locally.

The Medium Term Financial Strategy has recently been updated indicating that due to reductions in government funding and demands on Council services as well as more general economic changes brought about by Brexit the financing of the Council services remains challenging.

To balance the budget there will be a continuing need for service transformation, efficiencies and other savings initiatives for the foreseeable future.

The Medium Term Financial Strategy

The budget for 2020/21 was set against further reductions in Government grant. The Council's Medium Term Financial Strategy has been updated and takes into account inflation (both pay and contract), superannuation and national insurance changes.

The medium term financial strategy for the period 2021/22 to 2025/26 is set out in the table below

CONTENTS

**Havant Borough Council
General Fund Summary
2021/22 to 2025/26 Medium Term Financial
Strategy**

	2021/22 Draft Budget £ (000)	2022/23 Estimate £ (000)	2023/24 Estimate £ (000)	2024/25 Estimate £ (000)	2025/26 Estimate £ (000)
Director of Corporate Services					
5 Councils Staff and Contract	287	287	287	287	287
Head of Legal	913	913	913	913	913
Head of Organisational Development	724	724	724	724	724
Head of Programmes Redesign	3,039	3,039	3,039	3,039	3,039
Head of Customer Services	3,700	3,700	3,700	3,700	3,700
Head of Strategic Commissioning	3,855	4,064	4,277	4,495	4,717
Head of Finance	1,040	1,040	1,040	1,040	1,040
Director of Regeneration and Planning					
Head of Coastal Partnerships	417	417	417	417	417
Head of Neighbourhood Support	(486)	(486)	(486)	(486)	(486)
Head of Housing	454	454	454	454	454
Head of Planning	560	560	560	560	560
Head of Community Engagement	584	584	584	584	584
Head of Property	(1,858)	(1,858)	(1,858)	(1,858)	(1,858)
Head of Regeneration (South)	562	562	562	562	562
Total Cost of Services	13,791	14,000	14,213	14,431	14,653
Regeneration Investments	(198)	(198)	(198)	(198)	(198)
Salary inflation (cumulative)		383	777	1,183	1,601
Other cost inflation (cumulative)		250	500	750	1,000
Net Cost of Services	13,593	14,435	15,292	16,166	17,056
Business Rates Retention	(4,496)	(4,293)	(4,379)	(4,467)	(4,556)
Section 31 grant	(1,953)	(1,992)	(2,032)	(2,072)	(2,114)
Levy payment	996	1,016	1,036	1,057	1,078
Business Rates Collection fund (surplus)/Deficit	1,439				
Council Tax	(8,890)	(9,113)	(9,341)	(9,576)	(9,816)
Council Tax Collection Fund (surplus)/Deficit	(136)				
General Grants					
New Homes Bonus Grant	(347)	(91)	0	0	0
Other Financing					
Covid 2021-22 allocation	(743)				
Lower Tier Services Grant	(200)				
Contributions to/(from) Earmarked Reserves	737	987	987	987	987
Contributions to/(from) General Fund Balance					
Total Deficit/(Surplus)	0	949	1,562	2,095	2,635

As outlined earlier in this report, the medium term plan will be revisited in light of the Covid-19 pandemic. An update on the Council's MTFs, along with an analysis of the financial impact on the Council of Covid-19 will be provided to Cabinet during the year. A new medium term plan for 2022/23 to 2026/27 will then be submitted to Cabinet and Full Council for approval in February 2022.

CONTENTS

Capital Strategy 2021/22

The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which seeks to provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how associated risk is managed
- the implications for future financial sustainability

The Council's Capital Strategy for 2021/22 was approved by Full Council on 24th February 2021 and is available on the Council's website.

Within the capital strategy is the Capital Programme for 2021/22 to 2025/26 was prepared to mirror the 5 year timeframe of the MTFS.

CONTENTS

Appendix C

	YTD	5 YEAR CAPITAL PROGRAMME				
Havant Borough Council Capital Programme Summary Project	2020/21 Revised Forecast £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Housing						
Disabled Facilities Grants	1,628	1,628	1,628	1,628	1,628	1,628
IT Equipment						
Design and System Implementation Programme		204				
Asset Maintenance Management System	0	35				
Building Control - Software	15	0				
Southern Coastal	0	0				
Vehicles and Equipment						
Pest Control Vehicles						
Refurbishment of HBC equipped play areas	70	70				
Land and Buildings						
Developer contributions / CIL		1,044				
Hayling Island Goose Refuge	0					
Nutrient Neutrality Mitigation	216					
Hayling Island BMA	620	426				
Hayling Island Strategy	231	263	65			
Broadmarsh Feasibility	48					
Langstone FCERM	199	501	132	2,233	1,125	
Grand Totals	3,027	4,171	1,825	3,861	2,753	1,628
Projected Capital Financing						
REFCUS (Revenue funded as Capital under Statute)	1,628	1,628	1,628	1,628	1,628	1,628
External Grants & Contributions	1,314	2,234	197	2,233	1,125	0
Use of Specific Reserves	85	309	0	0	0	0
Use of Capital Receipts						
Borrowing Requirement						
Revenue Funding						
Total Projected Funding	3,027	4,171	1,825	3,861	2,753	1,628

9. Material assets/liabilities

The Council did not purchase any significant assets during the year. The Council did dispose of Brockhampton West site for which it received a capital receipt of

£8 million

10. Explanation of the Financial Statements

The Accounts and Audit Regulations 2015 require the Council to produce a Statement of Accounts for each financial year. There have been no changes to policies.

These statements contain a number of different elements which are explained below.

CONTENTS

These statements contain a number of different elements which are explained below.

Statement of Responsibilities sets out the respective responsibilities of the Council and the Chief Finance Officer.

Independent Auditor's Report gives the auditor's opinion of the financial statements and of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Statement of Accounts

- **Comprehensive Income and Expenditure Statement** shows the cost of providing services in the year in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation.
- **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves.
- **Balance Sheet** shows the value of the Council's assets and liabilities at the reporting date. These are matched by reserves which are split into two categories; usable and unusable reserves.
- **Cash Flow Statement** shows the changes in the Council's cash and cash equivalents during the reporting period.
- **Collection Fund** is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and National Non-Domestic Rates (NDR) and its distribution to precepting bodies.

11. Acknowledgements

I would like to thank all those involved in managing the Council's finances and preparing this Statement of Accounts. Their support under ever increasing competing demands has been appreciated throughout these challenging times.

Chief Finance Officer

STATEMENT OF RESPONSIBILITIES

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Chief Finance Officer

INDEPENDENT AUDITOR'S REPORT

[to be completed post audit]

ANNUAL GOVERNANCE STATEMENT

Introduction

The Leader of the Council (Councillor Alex Rennie) and Chief Executive (Gill Kneller) both recognise the importance of having good systems in place to manage and deliver services to the residents of Havant Borough. Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how its corporate governance arrangements have been working. This AGS is in respect of 2020-21.

The Council also publishes an Annual Statement of Accounts which provides further information on the opportunities and challenges faced by the Council.

The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values by which the Council directs and controls its activities, and how it leads, engages with and accounts to the community it serves. The framework brings together an underlying set of legislative requirements, good practice principles and management processes and enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level. It cannot eliminate all risk of failure to achieve the Council's aims and objectives, and seeks to provide reasonable rather than absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify, prioritise and manage the risks to the achievement of the Council's aims and objectives.

The governance framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The framework recognises that the Council's business is focused upon its corporate priorities and seeks to facilitate delivery to our local communities.

The risk management processes and other internal control systems such as standards of conduct and audit form part of this framework. Members and senior Officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. This task is managed by the Executive Board which comprises the Chief Executive, Executive Director and Chief Finance Officer (Section 151 Officer) with advice and guidance provided by the Monitoring Officer. The Executive Board is provided with assurance by the Corporate Governance Board.

Governance during Covid-19

The year 2020-21 has been characterised by the challenges around delivering services while maintaining good governance during the Covid-19 pandemic. The Council has adapted by introducing remote and/or hybrid Council meetings which adhered to lockdown restrictions and government guidance for the relevant points in time, and allowed robust and appropriate decision making to continue. In addition, the majority of our staff have been working remotely, as per government instruction to 'work from home if you can', with all statutory Council services continuing to be delivered throughout the year. Staff have also been redeployed to cover Covid-19 guidance requirements, such as providing Covid marshal support in town centres, staffing community testing centres and monitoring business premises compliance with regulations. Health and safety has been prioritised throughout, with the Council offices achieving Covid secure status and a robust procedure established for office attendance and undertaking site visits. Our business continuity arrangements were drawn upon to prioritise the delivery of key services, working with the Local Resilience Forum and partner organisations to ensure that the Council's resources were targeted to effectively support the communities of Havant borough.

Our organisational response has been reviewed through targeted audits and the Overview & Scrutiny Committee has reviewed same and provided feedback. A Cabinet report detailing the Council's response to the initial phase of the pandemic in spring 2020 can be viewed at <https://havant.moderngov.co.uk/ieListDocuments.aspx?CId=128&MId=11073>. In addition, the Council has commissioned specialist advisors to produce a Covid-19 Recovery Plan which will set out how best to assist the borough as it emerges from the pandemic.

External audit has reviewed the annual accounts and cashflow position in relation to Covid-19 financial pressures. Internal audit have provided assistance in relation to the administration of Covid support grant certification and

ANNUAL GOVERNANCE STATEMENT

assurance in relation to financial stability of the organisation during Covid and on the welfare support provided to the Council's staff.

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How do we know it is working?

The annual process that we use to maintain and review effectiveness of our governance arrangements includes a wide input.

Procedures, rules and internal management processes

- Delivery of Corporate Strategy priorities
- Services are delivered economically, efficiently and effectively
- Management of risk
- Financial planning and performance
- Effective internal controls
- Community engagement and public accountability
- Shared service governance
- Project management and project delivery
- Procurement processes
- Roles and responsibilities of Members and Officers
- Standards of conduct and behaviour
- Training and development of Members and Officers
- Compliance with laws and regulations, internal policies and procedures

Sources that provide assurance

- Constitution (including statutory officers, scheme of delegation, financial management and procurement rules)
- Council, Cabinet, Committees and Panels
- Corporate Governance Board
- Quarterly healthcheck reports
- Joint Human Resources Committee
- Executive Board
- Project management methodology
- Strategic Projects Board
- Performance Management Framework
- Medium Term Financial Strategy
- Complaints system
- Head of Paid Service, Monitoring Officer and S151 Officer
- HR policies and procedures
- Whistleblowing and other policies countering fraud
- Staff and Member training
- Codes of conduct
- Internal audit
- External audit

Ongoing assessment of our effectiveness

- Annual Governance Questionnaire
- Regular performance and financial reporting
- Annual financial report
- External audit reports
- Internal audit reports
- Officer governance groups
- Customer feedback
- Council's democratic arrangements including scrutiny reviews and the audit committee
- Staff surveys
- Community consultations

2020-21 areas identified for improvement in 2021-22

- Embedding of revised Constitution including codes of conduct and structure of Council
- Review of 2021/22 Medium Term Financial Strategy
- Review the governance arrangements for the 'Shaping our Future' programme
- Compliance with the Chartered Institute of Public Finance & Accountancy (CIPFA) Financial Management (FM) Code

ANNUAL GOVERNANCE STATEMENT

How we apply the governance framework to the Local Code of Corporate Governance

The Council aims to achieve effective corporate governance through the Local Code of Corporate Governance. The table below highlights examples of how the Council has adhered to its governance commitments as set out in the Code and includes hyperlinks to sources of further information which include more detail about how the Council has implemented its commitments.

A. BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES AND RESPECTING THE RULE OF LAW	
How the Council meets these principles	Where you can see Governance in action
<p>There are codes of conduct in place for all Councillors and Officers which can be found in Part 4 of the Constitution. The Council has appointed independent persons to investigate any allegations of misconduct, and the Standards Committee receives regular reports from the Monitoring Officer on any complaints regarding Councillors. During the year the Audit and Finance Committee reviewed and revised the Code of Conduct which was undertaken following the publication of the report into standards in local government. Full Council approved the amended Code of Conduct in January 2021.</p> <p>The Council's Constitution contains the standing orders, scheme of delegation, financial regulations and contracts procedure rules. The Constitution also contains the policies for anti-fraud and corruption, anti-bribery and whistleblowing. A comprehensive review of the Constitution has taken place throughout 2020-21 to ensure that it is an effective and up-to-date document. The revised version was approved at full Council in January 2021 for adoption on 1 March 2021.</p> <p>All Council employees have clear conditions of employment, and roles and responsibilities are set out in job descriptions. Mandatory performance objectives are set for all staff which ensure compliance with data protection law, Health and Safety regulations, and the Council's Safeguarding Policy. Staff must also undertake mandatory e-learning courses throughout the year on such topics to ensure their knowledge and understanding is up to date.</p> <p>There is a requirement for Councillors to make a Declaration of Disclosable Pecuniary Interests within 28 days of taking office and to notify the Council of any changes to the interests made in this declaration within a specified time period. Councillors must also disclose interests which are not registered but which are relevant to matters to be discussed at a meeting of the authority. Councillors are barred from participating in any discussion on, or voting on, the matter in relation to which the Member has a disclosable pecuniary interest. There is an up-to-date register of gifts and hospitality, and an annual register of declarations. Any declarations of interest made during meetings are recorded in the minutes.</p> <p>The Council has in place a complaints procedure including weekly reminders to relevant managers responsible.</p> <p>The Council has a shared Monitoring Officer with East Hampshire District Council and as a member of the Executive Board they are kept apprised on the Council's projects and actions and are ultimately responsible for legal compliance.</p> <p>Statutory officer roles are the Head of Paid Service who is the Chief Executive, the Chief Financial (S151) Officer, who carries overall responsibility for the Council's financial administration, and the Monitoring Officer, who ensures the Council acts lawfully. The Data Protection Officer is also a statutory role under the new GDPR legislation. All of these roles are shared with East Hampshire District Council.</p>	<p>Councillor Code of Conduct Staff Code of Conduct</p> <p>Standards Committee</p> <p>Audit & Finance Committee</p> <p>Constitution</p> <p>Anti Fraud & Corruption Policy including Fraud Response Plan Whistleblowing Policy</p> <p>Declarations of interest</p> <p>Complaints procedure</p> <p>Management structure</p>

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B. ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT	
How the Council meets these principles	Where you can see Governance in action
<p>The Council has laid out its purpose, direction, vision and objectives in its Corporate Strategy which can be obtained either on the Council's website or from the Council's offices. The Council Corporate Strategy is comprehensively reviewed on a regular basis.</p>	<p>Corporate Strategy</p>
<p>The Council is committed to transparency and an open culture and publicises information in line with the publication scheme under the Freedom of Information Act. In addition, we subscribe to the Government's transparency agenda and publish information such as remuneration for senior management and information on items of expenditure over £500.</p>	<p>Freedom of Information</p>
<p>The Council's democratic function is responsible for ensuring agendas and key decisions are published in line with the statutory legal requirements. They are also responsible for supporting the scrutiny function of the Council and publishing a corporate calendar of dates annually. During the Covid-19 pandemic, Council meetings have been held remotely and/or in a hybrid manner according to government guidance and legislative requirements at the time, and these have been livestreamed via the Council's website which has resulted in increased public engagement with these meetings.</p>	<p>Committees and Papers</p>
<p>The Council usually carries out a residents' survey every two years, but during the Covid-19 pandemic has increased the frequency to be able to monitor the concerns and feelings of residents as the situation changes.</p>	<p>Residents' Survey</p>
<p>In addition to the publication of the residents' magazine, called 'Serving You', which is translated into accessible formats, the Council has a Facebook page and Twitter feed which is actively promoted and used. To promote transparency and wider engagement with Council decisions, residents can use social media such as Facebook, Twitter, LinkedIn and Instagram to get updates from and interact with the Council. Where remote meetings have taken place in 2020-21 due to the Covid-19 pandemic, these have been broadcast live via Skype and promoted on the Council's social media.</p>	<p>Serving You magazine HBC Facebook Twitter Instagram</p>
<p>The Council's website is set out in a clear and easily accessible way, using infographics and plain language. The information which residents use most, such as Council Tax and Waste and Recycling, can be accessed quickly and easily from the homepage. During the Covid-19 pandemic, the Communications team have made regular updates to dedicated pages on the website to provide residents and business with reliable information on legislative changes and public health guidance as it has shifted throughout the year. Accessibility improvements have also been made to the website in 202-21 to meet new accessibility requirements.</p>	<p>http://www.havant.gov.uk/</p>
<p>The Statement of Accounts provides a clear summary of the Council's activity over the previous year, so that residents can see where money has been spent and what this has achieved.</p>	<p>http://www.havant.gov.uk/accounts</p>
<p>The Council has a joint venture partnership (Norse South East) for waste collection which is governed by the Norse South East Board. There are members from Norse Commercial Services and the Council on the Board. Norse South East is responsible for the procurement and efficient management of waste and recycling collections, street cleaning, public convenience cleansing, grounds</p>	<p>http://norsesoutheast.co.uk/</p>

ANNUAL GOVERNANCE STATEMENT

maintenance and associated service facilities for the treatment and disposal of residual waste.	
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C. DEFINING OUTCOMES IN TERMS OF SUSTAINABLE ECONOMIC, SOCIAL AND ENVIRONMENTAL BENEFITS	
How the Council meets these principles	Where you can see Governance in action
<p>A refreshed Corporate Strategy has been developed and is subject to consultation; the refreshed Corporate Strategy contains the following themes:</p> <ul style="list-style-type: none"> • An environmentally aware and cleaner Borough • A safe environment, healthier and more active residents • A thriving local economy • A revitalised borough with infrastructure that meets our ambitions • A sustainable Council <p>These evidence based themes are used to guide the Council's corporate planning and decision making.</p> <p>The Council has also developed a Digital Strategy which supports the Corporate Strategy delivery and to create digitally 'savvy' staff and councillors and services designed to be accessible and convenient for our customers.</p> <p>The Council takes an annual approach to business planning, allowing a close link between business and financial planning. The Medium Term Financial Strategy is reviewed annually and forms the basis of the annual budgeting process.</p> <p>A Corporate Action Plan is prepared each year to support the delivery of the vision laid out in the Corporate Strategy, and progress against the objectives in the Corporate Action Plan is reported quarterly. Each service's Key Performance Indicators are monitored corporately and reported to the Executive Board on a quarterly basis to ensure that the objectives in the Corporate Action Plan are on target. Monthly financial forecasts are submitted to the Executive Board and quarterly to Councillors alongside the quarterly performance report. During the Covid-19 pandemic, financial monitoring reports have been improved, with modelling of the likely impacts of the pandemic on income and expenditure carried out to provide assurance on the Council's financial sustainability.</p> <p>The Council's budget report contains a summary of the budget and business plans that has been set for Havant Borough Council for 2020-21, as approved by the Council on the 26th February 2020. It shows on what service areas money is spent, and how this expenditure is funded. Also within this document is information showing the forecast financial position over the next five years, taking into account changes in government funding, other income and spending.</p> <p>The Council uses evidence based insight to inform decision making and uses the data available to understand residents and local businesses better. The Council is committed to consulting with and engaging with residents and local businesses in the planning and delivery of services to meet the needs of the community.</p>	<p>Corporate Strategy</p> <p>Digital Strategy</p> <p>Council Budget</p>

D. DETERMINING THE INTERVENTIONS NECESSARY TO OPTIMISE THE ACHIEVEMENT OF THE INTENDED OUTCOMES
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ANNUAL GOVERNANCE STATEMENT

How the Council meets these principles	Where you can see Governance in action
<p>The Council has a Medium Term Financial Strategy (available on the Council's website as part of the budget for the forthcoming year) which is used to align resources to key priorities.</p> <p>The Council has report templates to ensure authors cover all the requirements to enable a decision to be made; they include options appraisal (if required), cost and risk analysis in addition to key signatories such as legal and finance and must include the portfolio holder. This process has been significantly improved in recent years to increase the robustness of decision making.</p> <p>All decision-making meetings are held in public and decisions made by Cabinet members and Officers are published in line with the statutory legal requirements, although some items are considered as exempt. Minutes of all Council meetings are made available to the public, and members of the public have the opportunity to contribute to Council meetings.</p> <p>The Council has a complaints and feedback system, which records and monitors customer comments, complaints and requests for information.</p> <p>The Council has an internal audit service sourced through the Southern Internal Audit Partnership. The internal audit service has an annual audit plan based on a risk analysis carried out by the auditors each spring. Audit recommendations are monitored to ensure that they are completed by the service within a reasonable timeframe, and any actions which are not completed are reported to Executive Board.</p> <p>The Overview & Scrutiny Committee has responsibility for the performance of overview and scrutiny functions under the Local Government Act 2000 Section 9F. The role of Overview & Scrutiny Committee is to hold Cabinet decision makers to account by monitoring and scrutinising the decisions being made, both before and after they take effect. Members of the Overview & Scrutiny Committee must not be members of the Cabinet and, where possible, should be from different political parties.</p>	<p>Medium Term Financial Strategy</p> <p>Council Decisions</p> <p>Complaints procedure</p> <p>Internal audit</p> <p>Overview & Scrutiny Committee</p>

E. DEVELOPING THE COUNCIL'S CAPACITY, INCLUDING THE CAPABILITY OF ITS LEADERSHIP AND THE INDIVIDUALS WITHIN IT	
How the Council meets these principles	Where you can see Governance in action
<p>The Council has a joint management team with East Hampshire District Council. This management team is made up of the Chief Executive, Chief Finance Officer (S151 Officer), Executive Director and the Heads of Service, most of which are shared with East Hampshire District Council. The costs of all shared management posts are shared between the Councils.</p> <p>A number of the Council's corporate services are delivered through the 5 Councils Partnership with Capita which is monitored via a shared Client Team.</p> <p>The Council has a performance management framework which includes a comprehensive induction programme for new starters. Performance appraisal processes for all employees include regular 1:1 meetings with line managers and assessment against the Staff Competency Framework. In 2020-21 new mandatory e-learning courses were introduced for all staff (including health and safety, equality and diversity, and time management), alongside the ongoing leadership development</p>	<p>Management structure</p>

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<p>programme, business continuity and emergency planning training, and specialist professional training for frontline services.</p> <p>Following the Borough Council elections, all Councillors are required to undertake a comprehensive training programme which ensures that they have an understanding of the procedures and protocols of the Council. This may include training on planning and licensing matters and Councillors are not allowed to sit on the Planning or Licensing Committees until such training has been undertaken.</p> <p>In addition to the compulsory training, a series of other courses and events are also offered. Under the Councillor Development Programme and accompanying Competency Framework, during the course of a Councillor's four year term of office, regular skills audits are undertaken to identify any new skills requirements or refresher training requirements.</p>	<p>Councillor Competency Framework</p>
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F. MANAGING THE RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT	
How the Council meets these principles	Where you can see Governance in action
<p>The Council ensures that the roles and responsibilities for decision making and governance arrangements are defined and allocated, so that there is clear accountability for decisions made and actions taken. The Council does this by appointing a Leader and a Cabinet, which allocates specific executive responsibilities.</p> <p>There are also a number of committees appointed to discharge regulatory and scrutiny functions. Each committee has clear terms of reference setting out roles and responsibilities. All leadership roles, the roles of key Officers and the Council's Scheme of Delegation are set out within the Council Constitution.</p> <p>The Cabinet operates within the policy framework set by Full Council, and makes key decisions. All Cabinet meetings are held in public, with the exception of exempt items. All decision records are publicly available, and the Forward Plan and Key Decision notice is published on the Council website. Decisions made by Cabinet can be called in for review by the Overview & Scrutiny Committee. Decisions can also be made by Officers under delegated powers and reported to Councillors in line with the Council Constitution. Authority to make decisions is given in the Scheme of Delegation and by specific delegation by Cabinet or Council.</p> <p>Risk is considered and recorded as part of the business planning process, and monitored throughout the year as part of the quarterly review of performance and financial management (quarterly performance report). The Council has a wide range of performance indicators, which are used to measure progress against the Council's priorities. Performance indicators are reported quarterly to the Executive Board, to Audit and Finance Committee, and informally to Cabinet. Performance indicators clearly link individual services to the corporate objectives and include details of national and local performance indicators and risk. Performance indicators are reviewed annually as part of the business planning process to ensure they continue to be relevant and stretching.</p> <p>A Corporate Governance Board has been established with an objective of providing a pragmatic layer of assurance to the business. Specifically, the Corporate Governance Board ensures that the organisation develops and implements an effective approach to corporate governance which enables the business and affairs of the Council to be carried out, directed and managed with the objective of enhancing value to the public.</p>	<p>Council structure</p> <p>Committee structure</p> <p>Forward Plan</p> <p>Corporate Governance Policy</p>

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<p>This will be underpinned by the Local Code of Corporate Governance. In addition, the Corporate Governance Board is responsible for ensuring that an adequate risk management framework and associated control environment exists within the Council, and for monitoring the arrangements in place for the identification, monitoring and management of risks. The Board's Terms of Reference have been reviewed during 2020-21 in consultation with the Monitoring Officer.</p>	<p>Local Code of Corporate Governance</p>
<p>The Council has in place a number of policies and procedures to ensure decisions made are robust. These include the Finance and Contracts Procedure rules in the Constitution. Compliance with these policies is the responsibility of all Officers.</p>	<p>Policy Hub</p>

G. IMPLEMENTING GOOD PRACTICES IN TRANSPARENCY REPORTING AND AUDIT TO DELIVER EFFECTIVE ACCOUNTABILITY	
How the Council meets these principles	Where you can see Governance in action
<p>The Council publishes the Statement of Accounts annually within the statutory timescales. Accounting statements incorporate the full requirements of best practice guidance.</p>	<p>Statement of Accounts</p>
<p>The Council has an Audit and Finance Committee to provide assurance to the Council on the effectiveness of internal audit and the robustness of the Council's Annual Accounts. Risk management is controlled through the Corporate Governance Board and reported to Executive Board through the quarterly performance report. Risks rated as above the risk threshold are reported as part of the quarterly performance to Councillors. In 2020-21 these quarterly performance reports have begun to be published on the Council's website.</p>	<p>Audit and Finance Committee</p>
<p>Full Council is responsible for agreeing new policies and amendments to existing policies. It also sets out the policy and budget framework, and approves the annual budget. Audit and Finance Committee approves the Statement of Accounts.</p>	<p>Full Council</p>
<p>The Council is subject to independent external audit currently by Ernst & Young. The external audit plan outlines the work undertaken and the timing of external audit reports.</p>	
<p>The Council supplements this work with an internal audit service sourced through the Southern Internal Audit Partnership. The internal audit service has an annual audit plan based on a risk analysis carried out by the auditors each spring. This minimises the risk of fraud and error, and provides management with assurance that policies and procedures are robust. The Chief Internal Auditor is required to provide a written status report to the Executive Board, summarising the assurance opinions arising from the internal audit reviews carried out during the year.</p>	<p>Internal audit</p>
<p>The Audit and Finance Committee undertake the core functions of an audit committee.</p>	
<p>The Council has appointed the Chief Finance Officer as the Section 151 Officer with the statutory responsibility for the proper administration of the Council's financial affairs.</p>	

ANNUAL GOVERNANCE STATEMENT

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the following areas:

Area	Review of effectiveness
Political leadership	<ul style="list-style-type: none"> • Following the agreement of the new Constitution the various Council committees were amended in 2020-21. The Overview & Scrutiny Committee is responsible for monitoring, scrutinising and holding the decision makers to account. The Audit and Finance Committee ensures that the internal and external audit reports it receives are robust and provides assurance to the Council that the governance processes in place are sufficient. The role of the Standards Committee is to monitor standards of conduct of Members and advise the Council on probity issues. • A significantly improved Councillor Development Programme has been developed with mandatory and optional training modules. This is being rolled out in 2021 to ensure that Members are equipped with the right skills and knowledge to be able to fulfil their duties. • A new Corporate Strategy covering the period from 2020 to 2024 was developed and will be subject to consultation with residents and other stakeholders during 2021-22, to ensure that it best reflects the Council's ambitions for the Borough in the coming years. All councillors were given an opportunity to comment on the draft of the Corporate Strategy. The Corporate Strategy is a key strategic document that articulates the vision, values and priorities of the organisation and provides a framework for putting the Council's resources to best use. • The Council's response to the initial phase of the Covid-19 pandemic was reviewed by the Overview & Scrutiny Committee over the summer 2020 with final report reviewed by the Committee in March 2021.
Officer leadership	<ul style="list-style-type: none"> • The Council's Constitution underwent a comprehensive review in 2020-21, led by the Monitoring Officer, to ensure that it remains an effective and up-to-date document, and a revised version was approved in January 2021 and came into effect in March 2021. The document has been modernised and streamlined in order to make it easier to understand and to put into practice and its introduction is being accompanied by training to ensure that the new version is embedded. • The Corporate Governance Board report to the Executive Board on a quarterly basis on governance matters covering risk, health and safety, business continuity, emergency planning, information governance and financial risk. Updates are also provided to Audit and Finance Committee through the quarterly performance report which has undergone significant improvements during 2020-21 both in format (with a colour-coded dashboard format now being used to show the performance of different services) and content (with an extended range of quantitative performance indicators now being included). The Corporate Governance Board Terms of Reference have also been reviewed during 2020-21 to strengthen and clarify the Board's role in the organisation.
Internal assessment and monitoring	<ul style="list-style-type: none"> • There are regular reporting arrangements in place regarding the financial affairs of the Council. The budget for 2020-21 was agreed by Full Council on 26 February 2020 and financial performance is reported on a quarterly basis to Members. The Covid-19 pandemic posed a potentially significant threat to the Council's finances, but extensive modelling of different economic scenarios and identification of discretionary spending that could be reduced if income pressures continued throughout the year provided assurance on the financial sustainability of the Council. • Effective operation of the Performance Management Framework throughout the year: monitoring information on key areas of performance has been provided by the Governance Hub for review and action. The majority of service performance indicators were met during the year despite pressures caused by responding to the Covid-19 pandemic. • The Annual Governance Questionnaire is a survey run every January which asks officers for their self-assessment of the effectiveness of governance arrangements

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	<p>in their service area. Participation has improved in recent years following the extension of the questionnaire to all staff to reflect that good governance is everyone's responsibility - the number of responses received for the January 2021 survey had increased by 50% compared to the 2020 survey. The results of the questionnaire highlighted the following:</p> <ul style="list-style-type: none"> ○ 89% of responses said there was evidence of meeting the criteria – this was consistent with last year (90%) ○ Areas of strength: <ul style="list-style-type: none"> ▪ Engagement with Members on a regular basis ▪ Performance appraisals and other people management policies ▪ Compliance with FOI procedure ○ Areas for improvement: <ul style="list-style-type: none"> ▪ Awareness of structure and operation of Committees ▪ Awareness of staff Code of Conduct ▪ Completion of e-learning courses ○ Significant changes from 2020 survey: <ul style="list-style-type: none"> ▪ Confidence in the use of evidence-based insight when making decisions has improved - percentage of respondents saying there was limited or no evidence of meeting the criteria was 26% last year; this has now decreased to 12% ▪ Confidence in robustness of information governance arrangements has decreased - percentage of respondents saying there was evidence of consistently meeting the criteria) was 72% last year; this has now decreased to 55% <p>Areas that scored poorly in the questionnaire will be targeted with a programme of improvements throughout 2021-22 and the questionnaire will be repeated to see if any trends can be identified.</p>
<p>Responsibilities of Chief Finance Officer (s151)</p>	<ul style="list-style-type: none"> • The Chief Finance Officer is the Responsible Financial Officer and is a member of the Executive Board, reporting directly to the Chief Executive. They are responsible for delivering and overseeing the financial management arrangements of the Council. Havant Borough Council shares a Chief Finance Officer with East Hampshire District Council. • They are also responsible for ensuring alignment with the Code of Practice on Local Authority Accounting for 2020-21. Havant Borough Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the CFO in Local Government (2016). • During 2020-21 an internal audit review of the Council's financial sustainability was commissioned to provide assurance in the context of the Covid-19 pandemic and the resulting financial pressures on the authority. The audit review was completed with a 'substantial' assurance rating and no management actions to be implemented, showing a high degree of confidence in the Council's financial management arrangements.
<p>Internal audit</p>	<ul style="list-style-type: none"> • The Council's internal audit programme is provided by the Southern Internal Audit Partnership which is hosted by Hampshire County Council. An audit plan, based on a full risk evaluation, is approved annually. • Progress against the audit plan is reported quarterly to the Audit and Finance Committee. Any outstanding high risk actions are addressed as a matter of priority. • Internal audit attend Corporate Governance Board every quarter to provide an update on progress of management actions. Any outstanding actions are reported to Executive Board to ensure that these are escalated where necessary and completed within a reasonable timescale. • The Southern Internal Audit Partnership delivered 15 internal audit opinions over the course of the year ending 31 March 2021 with 6 'substantial' assurance reports, 8 'reasonable' assurance reports, 1 'limited' assurance report and no 'no assurance' reports. Additional reviews were conducted which did not lead to an audit opinion as they were advisory reviews and/or follow-up reviews.

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	<ul style="list-style-type: none">• The Chief Internal Auditor's annual opinion of Havant Borough Council's framework of governance, risk management and management control is 'reasonable' and audit testing has demonstrated controls to be working in practice.
External audit	<ul style="list-style-type: none">• The Council's external audit requirement is provided by Ernst & Young LLP.• The role of external audit is to ensure that the Council's Accounts are free from material error, to provide a value for money conclusion and to certify key grant claims.• The Council's external auditor provided the Council with an unqualified opinion on the last set of accounts approved within their Audit Results Report.• Ernst & Young LLP also provided an unqualified opinion of the Council's arrangements to secure Value for Money.

ANNUAL GOVERNANCE STATEMENT

Last year's key improvement areas

In the 2019-20 Annual Governance Statement, three key issues were identified for improvement. Below are the issues and actions taken during 2020-21.

Improvement area	Issue of concern	Objective and actions taken
<p>Potential conflict of interest within partnership arrangements</p>	<p>Havant Borough Council and East Hampshire District Council have had a shared Chief Executive and management team for several years which has allowed both Councils to benefit from salary savings and the sharing of skills and experience. During 2019-20 a number of opportunities to renegotiate contracts have highlighted the importance of acknowledging potential conflict of interest when working across two Councils. The current conflict of interest arrangements cover conflict between corporate and personal interests, but there is no formal policy in place for managing potential conflict of interest for the shared management of the two organisations. As the partnership arrangement with East Hampshire District Council continues to develop and change in the coming years, it is imperative that the individual priorities and needs of both Councils are considered as part of decision making processes, especially in contract negotiations</p>	<p><i>Objective: Develop conflict of interest policy relating to shared management of the two Councils, particularly regarding contract negotiations.</i> The Organisational Conflict of Interest Policy has been developed in consultation with the Monitoring Officer and this was adopted by Cabinet in June 2021.</p> <p><i>Objective: Review all shared service, shared workforce and shared values options for future direction of the partnership with this in mind.</i> The 'Shaping our Future' programme has been launched and refined during 2020-21 and a key workstream within the programme will focus on the relationship between EHDC and HBC, with input from the relevant Portfolio Holders.</p> <p><i>Objective: Ensure that shared staff understand the importance of considering potential conflict of interests between the two organisations.</i> As above, this will be a key focus within the 'Shaping our Future' programme. The Organisational Conflict of Interest Policy will provide a framework for discussion and will be promoted to all staff following its adoption by Cabinet.</p>
<p>Development and embedding of new Corporate Strategy</p>	<p>Following the expiration of the previous Corporate Strategy in 2019, a revised Strategy covering the period from 2020 to 2024 has been developed and will be subject to consultation with residents and other stakeholders during 2020 to ensure that it best reflects the Council's ambitions for the borough in the coming years.</p> <p>As one of the key strategic documents for the Council, the Corporate Strategy articulates the vision, values and priorities of the organisation and provides a framework for putting the Council's resources to best use.</p>	<p><i>Objective: In consultation with residents and other stakeholders, finalise and publish the Corporate Strategy.</i> The draft Corporate Strategy was subject to consultation during 2021 with our residents and business panel. Along with several supporting strategies including the Regeneration Strategy, Digital Strategy and Homelessness and Rough Sleeper Strategy, together these documents provide a strong strategic framework to shape and direct the work of the Council.</p> <p><i>Objective: Ensure that the new Corporate Strategy is embedded and that there are strong links between the strategy and the daily work of officers and councillors, particularly within the Performance Management Framework.</i> All councillors were briefed on the Corporate Strategy themes and were given</p>

ANNUAL GOVERNANCE STATEMENT

		<p>an opportunity to comment on the draft. The new Corporate Strategy themes have been embedded in the business planning cycle, being used to formulate the Corporate Action Plan 2020-21. Improvements to the report writing and review process, including targeted training for officers in November 2020, have emphasised how all reports coming forward for decision must explicitly identify the proposals' links to the Corporate Strategy themes. The Performance Management Framework is currently under review, awaiting the conclusion of an internal audit review, and will be taken forward as a key supporting workstream of the 'Shaping our Future' programme now that the Corporate Strategy has been approved.</p>
<p>Embedding of revised Constitution including codes of conduct and structure of Council</p>	<p>The Constitution review subcommittee will continue their work to ensure that the Constitution is modernised and streamlined in 2020-21. This will be followed by work to ensure that the revised Constitution is understood by all councillors and staff. This will be key to ensuring that the proper procedures are followed and that the framework of corporate governance remains strong.</p>	<p><i>Objective: Finish review of Constitution and produce revised version which is fit for purpose and able to be understood and used to guide decision making by all.</i> The revised Constitution was agreed at full Council in January 2021 and came into effect from March 2021. <i>Objective: Embed an improved understanding of the Constitution and its role in the Council's functioning, taking the opportunity to improve awareness of the governance framework.</i> Extensive work has been undertaken alongside the development of the revised Constitution to improve understanding and awareness of corporate governance matters in 2020-21.</p>

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Identified key improvement areas

The Council is generally satisfied with the effectiveness of corporate governance arrangements and internal control. As part of its continuing efforts to improve governance arrangements the following issues, as highlighted in this Statement, have been identified for improvement in 2021-22.

Issue of concern	Key improvement	Lead officer	Action required
Embedding of revised Constitution including codes of conduct and structure of Council	Now that the new Constitution has come into effect, work must continue to ensure that the revised version is embedded and understood by all councillors and officers. This will be key to ensuring that the proper procedures are followed and that the framework of corporate governance remains strong.	Monitoring Officer	Continue work to improve understanding of the Constitution, its role in the Council's functioning, and its relevance to officers' and councillors' daily work.
Review of the 2021/22 Medium Term Financial Strategy (MTFS)	Considering the recent pandemic response, ensure that the published MTFS remains robust.	S151 Officer	Undertake a thorough review of the MTFS during the early part of 2021 to ensure that the Council's budget and MTFS remains robust in the light of the aftermath of the pandemic response, the withdrawal of government support and the impact of the pandemic on the local and national economy.
Review the governance arrangements for the 'Shaping our Future' programme	Ensure that the programme is well governed, with good control of investments and benefits.	Chief Executive	During the summer of 2021, review the arrangements for the 'Shaping our Future' programme, ideally with outside support such as internal audit, to ensure that the governance is strong and that decisions are soundly evidence based.
Compliance with the CIPFA Financial Management (FM) Code	This Code comes into effect from 2022/23 and the Council will need to be compliant.	S151 Officer	The Council will undertake a compliance review during 2021/22 so that any necessary actions to ensure compliance by 2022/23 are undertaken in a timely and planned manner.

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Opinion

It is our opinion that corporate governance, along with supporting controls and procedures, is strong. We propose over the coming year to take steps to address the above matters to further enhance our corporate governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

Signed

CEO

Leader

STATEMENT OF RESPONSIBILITIES

The Council's Responsibility

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. At Havant Borough Council this officer is the Director of Corporate Services.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts.

The Director of Corporate Services (as the Chief Financial Officer) Responsibility

The Director of Corporate Services is responsible for the preparation of the Council's statement of accounts, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Director of Corporate Services has:

- selected suitable accounting policies and then applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- complied with the local authority Code.

The Director of Corporate Services has also:

- kept proper accounting records that were up to date.
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chief Financial Officer Certificate

I certify that I have fulfilled my responsibilities noted above and that the accounts set out on pages xx to xx give a true and fair view of the financial position of the Council as at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

Chief Finance Officer

Approval of Accounts

The accounts were presented to the Audit and Standards Committee on the xxx and were authorised by the Chairman of the Committee Councillor xxxxx.

Chairman of Audit Committee

xxx

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2019/20			2020-21			
Expenditure	Income	Net		Expenditure	Income	Net
£'000	£'000	£'000		£'000	£'000	£'000
			Director of Corporate Services			
1,023	(726)	297	5 Councils Staff and Contract	1,442	(896)	546
364	0	364	Executive Office	473	(56)	418
536	(132)	404	Head of Legal	993	(140)	853
1,538	(115)	1,423	Head of Organisational Development	714	(163)	550
3,559	(371)	3,188	Head of Programmes Redesign	3,503	(348)	3,155
30,491	(27,036)	3,455	Head of Customer Services	28,525	(26,001)	2,524
9,805	(4,957)	4,848	Head of Strategic Commissioning	12,207	(7,366)	4,841
832	(51)	781	Head of Finance	1,424	(239)	1,185
371	(174)	197	Head of Commercial Development	0	0	0
			Director of Regeneration and Planning			
3,469	(2,784)	685	Head of Coastal Partnerships	1,104	(477)	627
3,772	(3,322)	450	Head of Neighbourhood Support	3,413	(2,288)	1,125
1,253	(1,003)	250	Head of Housing	1,707	(1,297)	409
2,505	(1,338)	1,167	Head of Planning	1,488	(1,548)	(60)
1,184	(109)	1,075	Head of Community Engagement	1,340	(502)	838
1,279	(655)	624	Head of Property	1,164	(619)	546
684	(244)	440	Head of Regeneration (South)	593	(127)	466
(60)	0	(60)	Other Operating I&E	(21)	0	(21)
62,605	(43,017)	19,588	Cost of Services	60,069	(42,066)	18,003
0	(66)	(66)	Loss/(Gains) on the disposal of assets	0	(8,851)	(8,851)
0	(66)	(66)	Other Operating Expenditure	0	(8,851)	(8,851)
1,143	0	1,143	Net interest on defined pension liabilities	1,005	0	1,005
0	(101)	(101)	Interest receivable and similar income	0	(26)	(26)
137	0	137	Interest payable and similar expenses ^d	134	0	134
	(822)	(822)	Changes in fair value of investment properties	0	772	772
228	(1,707)	(1,479)	Income and expenditure in relation to investment properties	573	(2,351)	(1,778)
1,508	(2,630)	(1,122)	Financing and Investment Income and Expenditure	1,712	(1,605)	108
0	(8,388)	(8,388)	Council Tax Income	0	(8,638)	(8,638)
9,564	(13,757)	(4,193)	Non Domestic Rates	9,720	(5,083)	4,637
0	(1,622)	(1,622)	Non-ringfenced government grants	0	(13,548)	(13,548)
0	(2,860)	(2,860)	Capital grants and contributions	0	(3,580)	(3,580)
9,564	(26,627)	(17,063)	Taxation and non-specific grant income and expenditure	9,720	(30,849)	(21,129)
73,677	(72,340)	1,337	(Surplus) or Deficit on Provision of Services	71,501	(83,370)	(11,869)
		(3,574)	Surplus on revaluation of non-current assets.			(152)
		(3,774)	Remeasurement of the net defined benefit pension liability			1,330
		(7,348)	Other Comprehensive Income and Expenditure			1,178
		(6,011)	Total Comprehensive Income and Expenditure			(10,691)

MOVEMENT IN RESERVES

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2019/20							
Balance at 1 April 2019	(7,403)	(2,292)	(1,384)	(12,883)	(23,962)	(33,813)	(57,775)
Movement in Reserves in 2019/20:							
Surplus (deficit) on the provision of services (accounting basis)	1,519	0	0	0	1,519	0	1,519
Other Comprehensive Income and Expenditure	0	0	0	0	0	(7,531)	(7,531)
Total Comprehensive Income and Expenditure	1,519	0	0	0	1,519	(7,531)	(6,012)
Adjustments between accounting and funding basis under regulation - note 6	(2,389)	0	(86)	(729)	(3,204)	3,204	0
Net increase/decrease before transfers to Earmarked reserves	(870)	0	(86)	(729)	(1,685)	(4,327)	(6,012)
Transfers to/from Earmarked reserves - note 11	4,773	(4,773)	0	0	0	0	0
(Increase)/Decrease in Year	3,903	(4,773)	(86)	(729)	(1,685)	(4,327)	(6,012)
Balance at 31 March 2020	(3,500)	(7,065)	(1,470)	(13,612)	(25,647)	(38,140)	(63,787)

MOVEMENT IN RESERVES

	General Fund Balance	Ear-marked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2020/21							
Balance at 1 April 2020	(3,500)	(7,065)	(1,470)	(13,612)	(25,648)	(38,140)	(63,787)
Movement in Reserves in 2020/21:							
Surplus (deficit) on the provision of services (accounting basis)	(11,878)	0	0	0	(11,878)	0	(11,878)
Other Comprehensive Income and Expenditure	0	0	0	0	0	1,178	1,178
Total Comprehensive Income and Expenditure	(11,878)	0	0	0	(11,878)	1,178	(10,700)
Adjustments between accounting and funding basis under regulation - <i>note 6</i>	(865)	0	(8,849)	(2,264)	(11,978)	11,978	(0)
Net increase/decrease before transfers to Earmarked reserves	(12,743)	0	(8,849)	(2,264)	(23,856)	13,156	(10,700)
Transfers to/from Earmarked reserves - <i>note 11</i>	12,733	(12,733)	0	0	0	0	0
Increase/(Decrease) in Year	(10)	(12,733)	(8,849)	(2,264)	(23,856)	13,156	(10,700)
Balance at 31 March 2021	(3,510)	(19,798)	(10,319)	(15,876)	(49,504)	(24,984)	(74,487)

BALANCE SHEET

31 March 2020			31 March 2021
£'000			£'000
65,471	Property, Plant and Equipment	<i>Note 14</i>	64,104
32,501	Investment Properties	<i>Note 15</i>	32,367
42	Intangible Assets		34
124	Long Term Debtors	<i>Note 16</i>	615
98,138	LONG TERM ASSETS		97,120
0	Assets Held for Sale		0
10,266	Short Term Debtors	<i>Note 16</i>	22,312
0	Inventories		0
0	Short Term Investments	<i>Note 20</i>	0
24,260	Cash and Cash Equivalents	<i>Cash Flow</i>	45,531
34,526	CURRENT ASSETS		67,843
(13,118)	Short Term Creditors	<i>Note 17</i>	(32,605)
(292)	Bank Overdraft		(228)
(653)	Provisions	<i>Note 18</i>	(199)
(102)	Short Term Borrowing	<i>Note 18</i>	(106)
(280)	Capital grants receipts in advance	<i>Note 18</i>	(81)
(14,445)	CURRENT LIABILITIES		(33,219)
(4,249)	Capital grants receipts in advance	<i>Note 18</i>	(4,009)
0	Long Term Creditors		0
(1,939)	Provisions		(1,588)
0	Finance Lease		0
(3,253)	Long Term Borrowing	<i>Note 20</i>	(3,152)
(44,990)	Net Defined Pension liability	<i>Note 8</i>	(48,508)
(54,431)	LONG TERM LIABILITIES		(57,257)
63,788	NET ASSETS		74,487
(3,500)	General Fund		(3,509)
(7,065)	Earmarked Reserves	<i>Note 11</i>	(19,797)
(1,471)	Capital Receipts Reserve		(10,320)
(13,612)	Capital grants and contributions		(15,876)
(25,648)	USABLE RESERVES		(49,502)
(39,943)	Revaluation Reserve		(39,043)
(44,465)	Capital Adjustment Account		(44,094)
0	Deferred capital receipts		0
44,990	Pensions Reserve		48,508
1,148	Collection Fund Adjustment Account		9,362
130	Accumulated Absences Account		282
0	Share of Associate		0
(38,140)	UNUSABLE RESERVES	<i>Note 12</i>	(24,985)
(63,788)	TOTAL RESERVES		(74,487)

CASH FLOW STATEMENT

2019-20		2020-21
		£'000
		£'000
(22,208)	Taxation	(12,845)
(32,762)	Grants and Contributions	(40,428)
(20,371)	Sales of goods and rendering of services	(20,138)
(100)	Interest received	(28)
(10)	Other receipts from operating activities	(31)
(75,451)	Cash inflows generated from operating activities	(73,470)
9,623	Cash paid to and on behalf of employees	10,788
25,104	Housing benefit payments	23,177
9,564	NNDR Tariff payments	9,720
22,326	Cash paid to suppliers of goods and services	14,644
132	Interest paid	129
4,965	Other operating cash payments	3,850
71,714	Cash outflows generated from operating activities	62,308
(3,737)	Net cashflows from operating activities	(11,162)
(440)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(8,851)
6,378	Purchase of property, plant and equipment, investment property and intangible assets	1,339
0	Purchase of short-term and long-term investments	0
0	Proceeds from the sale of short-term and long-term investments	0
0	Other payments for investing activities	0
(5,502)	Other receipts from investing activities	(4,122)
436	Net cashflows from investing activities	(11,634)
0	Cash Receipts - long/short term borrowing	0
447	Repayments of long/short term borrowing	167
315	Changes in Council Tax balances held for preceptors	807
386	Changes in National Non-Domestic Rates balances held for preceptors	551
1,148	Net cashflows from financing activities	1,525
(2,153)	Net (Increase) / decrease in cash and cash equivalents	(21,271)
21,816	Cash and cash equivalents 1 April	23,969
	Adjust bank overdraft	292
2,153	Net increase / (decrease) in cash and cash equivalents	21,271
23,969	Cash and cash equivalents 31 March	45,532
5,000	Call accounts and short term deposits	5,000
18,969	Bank balances	40,532
23,969	Cash and cash equivalents 31 March	45,532

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 1. ACCOUNTING POLICIES

Going Concern

The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Where this is not the case, particular care will be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept can have a fundamental impact on the financial statements.

Accounts drawn up under the Code assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of Central Government). If an authority was in financial difficulty, the prospects are thus that alternative arrangements might be made by Central Government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

The restrictions in place within the United Kingdom in response to Covid-19 have created significant issues for many businesses and residents. The government continued to provide some support for additional costs borne by authorities in the year 2020/21. This going concern assessment covers the period up to 31 May 2023.

The Council has prepared a cash forecast to May 2023 and it does not identify any need for borrowing and provides assurance of continuing liquidity for that period.

Our most recent balances compared to the year end reported in these statements is as follows.

Date	General Fund £ (000)	Earmarked Reserves £ (000)
31 March 2021	3,509	19,797
31 March 2022	3,509	15,920
31 March 2023	3,509	11,100

2021/22 Financial Monitoring

The revenue monitoring forecast for Quarter 2 shows a projected deficit for the net cost of services of £0.109 million, compared to a Quarter 1 deficit of £0.199 million. Overall the forecast has improved from Quarter 1, reflecting the savings that have arisen by management proactively managing the expenditure budget as well as an overall improvement in income budgets between Quarter 2 and Quarter 1.

The Government's Local Government Fair Funding Review for 2021/22 was delayed and increased Government funding was provided expenditure pressures in 2022/23. Un-ringfenced Lower Services Tier Grant of £0.150 and New Service funding of £0.230 million was allocated. The 2022/23 budget was set as a balanced budget.

NOTES TO THE ACCOUNTING STATEMENTS

General Fund Balance	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Opening Balance	3,509	3,509	3,509	3,632	3,099	2,561
Movement in Year	0	0	123	(533)	(538)	(329)
Closing Balance	3,509	3,509	3,632	3,099	2,561	2,232

The General Fund balance will remain above the 'minimum level of GF balances' set up by our S151, which is £2m, across this timeline.

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. However for low individual value annual transactions (e.g. annual payment for beach hut licences) this is recognised on a cash basis.
- The new revenue recognition standard in IFRS 15 introduces a single model for income with prescribed steps to identify when control of goods or services passes to the customer together with associated revenue in the contract between the parties. An assessment was made of the income streams and the effect of IFRS 15 on the accounts which was found to be immaterial.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet. Inventories below £10,000 are considered immaterial and are expensed.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Accounting for Council Tax and Non Domestic Rates

The Council collects income from payers of Council Tax and Non-Domestic Ratepayers, but only part of the income relates to this Council, the balance being collected on behalf of other major precepting authorities, including the Government. The amounts of debtors, adjustments for doubtful debts, overpayment creditors and receipts in advance that relate to the precepting authorities are shown as a single net debtor or creditor in the balance sheet. The element

NOTES TO THE ACCOUNTING STATEMENTS

of the Collection Fund due to preceptors is held as part of the Short Term Creditors balance. Annual changes in the amounts held for preceptors are shown as part of financing activities in the Cash Flow Statement.

The amounts legally credited to the General Fund are those estimated before the start of the financial year, including distributions of estimated surplus, or contributions towards estimated deficits. In accounting terms, however, the Council's share of the collectable debit (including adjustments to allowances for doubtful debts and appeals) are credited to the Comprehensive Income and Expenditure Statement. The difference between the cumulative amounts for statutory and accounting purposes forms the Collection Fund Adjustment Account (an unusable reserve) and the annual adjustment forms part of the accounting and financing adjustments.

4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than ninety days from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to Revenue for Non-Current Assets

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- revaluation and impairment gains, where they reverse losses previously charged to services
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. This provision, known as Minimum Revenue Provision (MRP), is equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the

NOTES TO THE ACCOUNTING STATEMENTS

period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that these benefits are charged to the General Fund in the financial year in which payment is made.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service cost line in the CI&ES when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

The majority of the Council's employees are members of the Local Government Pensions Scheme, administered by Hampshire County Council. The Scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Hampshire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bond chosen by the Fund's Actuary.
- The assets of the Hampshire pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities - current bid price
 - unquoted securities - professional estimate
 - unitised securities - current bid price
 - property - market value
- The change in the net pensions liability is analysed into the following components:
 - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the CI&ES to the services for which the employees worked
 - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the CI&ES as part of the cost of other Operating Expenses
 - net interest on the defined benefit liability, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the financing and investment income line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the defined benefit liability at the beginning of the period – taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
 - remeasurements comprising:
 - the return on plan assets, excluding amounts included in net interest on the net defined liability, charged to the Pension Reserve as Other Comprehensive Income and Expenditure
 - actuarial gains or losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the

NOTES TO THE ACCOUNTING STATEMENTS

actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- o contributions paid to the Hampshire pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

9. Fair Values

The Council measures some of its non-financial assets (surplus assets and investment properties), and its available for sale financial asset, at fair value at each reporting date. The Council also discloses fair values for financial assets and liabilities categorised as loans and receivables. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction at the year end. The fair value measurement assumes that the transaction takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market.

The Council measures the asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that they act in their economic best interest.

When measuring the fair value the Council takes into account the market participants' ability to generate economic benefits by using the asset or liability in its highest or best use, or by selling it to another party that would use the asset or liability for its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques for assets and liabilities that are measured or disclosed in the financial statements are categorised within the fair value hierarchy, as follows:

NOTES TO THE ACCOUNTING STATEMENTS

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the year end.
Level 2	Inputs, other than quoted prices within Level 1, that are observable for the asset or liability, either directly or indirectly.
Level 3	Unobservable inputs for the asset or liability.

10. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument in another entity. Non-exchange transactions, such as those relating to taxes, benefits, and government grants, do not give rise to financial instruments.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Liabilities include trade payables. It has been assessed that the carrying amount in the Balance Sheet is a proxy for the fair value of those liabilities.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

The business model of the council is to hold investments to collect contractual cash flows. Financial assets are therefore classified at amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are then measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

NOTES TO THE ACCOUNTING STATEMENTS

However, the Council has from time to time made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased substantially since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased substantially or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has a substantial amount of investments and employs treasury management advisers in addition to full time professional staff. However, reasonable and verifiable information to support the measurement of lifetime losses on individual instruments is not available without undue cost or effort. Losses are mainly assessed for the portfolio on a collective basis.

Financial Assets are amalgamated into the following groups to assess risk and associated loss allowances whilst making use of a simplified approach contained in regulations.

Group 1 – Commercial investments in line with treasury management policy including counterparties that have external credit ratings of A or better. Loss allowances will be assessed on a group basis using the simplified approach of collective assessment.

Group 2 – Loans to related parties. Loss allowances for these loans are assessed on an individual basis and / or an individual borrower basis.

Group 3 – Other loans to local businesses, in support of the Council vision and objectives. Loss allowances for these loans are assessed on an individual basis and / or an individual borrower basis.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

NOTES TO THE ACCOUNTING STATEMENTS

- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Financial Assets Measured at Fair Value through Other Comprehensive Income

Financial assets that are measured at FVOCI are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are charged to the Other Comprehensive Income and Expenditure and are held in the Financial Instrument Revaluation Reserve.

Movements in amortised cost are charged to the Surplus or Deficit on the Provision of Services

Cumulative gains/losses on fair value are transferred to the Surplus or Deficit on the Provision of Services on derecognition.

11. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the CI&ES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the CI&ES.

Where capital grants are credited to the CI&ES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

The Council has elected to charge a Community Infrastructure Levy (CIL), charged on new builds with appropriate planning consent. The income from the levy will be used to fund various projects described as “infrastructure” in a broader sense than used for Council property. The infrastructure investment is determined in the 123 list and it is not necessarily this Council that will undertake the works. Part of the CIL income is retained to offset the cost of administration, and is accounted for as income for the Planning service. Some is also payable to parishes: this is treated as an agency service and is excluded from the Comprehensive Income and Expenditure Statement. The rest is intended for use to finance capital, and is treated as capital contributions. As it is received without conditions it is recognised immediately as capital grants and contributions income, and is then transferred to the Capital Grants Unapplied Reserve. A small proportion of the monies may be used to fund revenue expenditure.

The income from CIL is accounted for on an accruals basis and recognised immediately in the CI&ES at the commencement date of the chargeable development. Surcharges and interest received in accordance with the CIL regulations will be accounted for as if they were CIL receipts.

12. Investment Property

NOTES TO THE ACCOUNTING STATEMENTS

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. As a non-financial asset, investment properties are measured at highest and best use.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CI&ES. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and that authority will be able to generate future economic benefits or deliver service potential by being able to use the asset. Costs relating to the development of computer software for internal use are capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred in the development phase. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software.

Amounts capitalised include the total cost of any external products or services and labour costs directly attributable to development. Management judgement is involved in determining the appropriate internal costs to capitalise and the amounts involved. The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Council will receive benefits from the software.

Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is written down over its useful life, to the appropriate line in the Comprehensive Income and Expenditure Statement. No intangible assets are recorded with indefinite lives. An asset is tested for impairment whenever there is an indication that the asset might be impaired, and any losses are posted to the appropriate line in the Income and Expenditure Statement.

The calculated amounts for amortisation and impairment are charged to the Cost of Services in the Comprehensive Income and Expenditure Account, but they are not proper charges against the General Fund. A transfer is therefore made from the Capital Adjustment Account to the General Fund to reverse the impact.

14. Interest in Companies and Other Entities

Local authorities are required to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. In order to assess whether the Council has interests relevant to group accounts, consideration has been given to involvement with companies, partnerships, voluntary organisations, and other public bodies to determine whether;

- the Council has a formal interest in a body which gives it access to economic benefits or service potential and that the body is an identifiable entity carrying on a trade or business of its own.
- the interest constitutes control over the majority of equity capital or voting rights or over rights to appoint the majority of the governing body or the interest involves it exercising, or having the right to exercise, dominant influence over the entity, such that the entity is classified as a subsidiary of the Council.

NOTES TO THE ACCOUNTING STATEMENTS

- If the authority does not have control, whether its interest involves it being able to exercise a significant influence over the entity without support from other participants, such that the entity is classified as an associate of the authority.
- If the authority does not have control, whether its interest allows it to direct the operating and financial policies in conjunction and with the consent of the other participants in the entity, such that the entity is classified as a joint venture for the authority.

Consideration has been given to the relationship with all potential entities. The Council's relationship with Norse South East will be assessed. Fuller disclosures have been made in the interests in other entities note in the Core Financial Statements.

The relationship with the body disclosed is not material and therefore there is no entity where the Council's interest is such that it would give rise to the requirement to prepare group accounts.

The position will be reviewed and updated on an annual basis.

15. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a

NOTES TO THE ACCOUNTING STATEMENTS

straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income

16. Overheads and Support Services

The recharging of overheads and support services is not reflected in any part of these accounting statements and notes.

17. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does

NOTES TO THE ACCOUNTING STATEMENTS

not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Vehicles, plant, etc. and infrastructure - depreciated historical cost.
- Community assets and assets under construction - historic cost.
- Land and buildings - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV). Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.
- Surplus Properties – fair value, as described in accounting policy above, equating to market value for their highest and best use from a market participant's perspective.

Assets included in the Balance Sheet at current value are subject to a full valuation once every five years, but are subject to a desktop review at the end of each year to ensure that their carrying amount is not materially different from their current value, or fair value at the year-end. All investment properties are subject to a full valuation every year including surplus assets. In addition the top 10 assets in value and the top 20% across the portfolio are subject to a valuation. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CI&ES where they arise from the reversal of a loss previously charged to a service. Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CI&ES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that the value of an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CI&ES.

NOTES TO THE ACCOUNTING STATEMENTS

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CI&ES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the Valuer. Useful life is between 10 and 50 years depending on the asset.
- vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. Useful life is between 3 and 20 years.
- Infrastructure - straight-line allocation over 10 to 50 years.

No depreciation is charged in year of acquisition but is charged at a full year rate in the year of disposal.

Reclassified assets are depreciated from year of reclassification.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation of Property Assets

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the other Operating Expenditure line in the CI&ES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CI&ES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

18. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of

NOTES TO THE ACCOUNTING STATEMENTS

economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

19. Reserves

The Council maintains two groups of reserves, usable and unusable.

Usable reserves comprise the following:

- Capital Receipts Reserve: proceeds from the sales of non-current assets are initially credited to the CI&ES, but legally can only be used to finance capital expenditure, and so are transferred to the Capital Receipts Reserve and afterwards used for this specific purpose.
- Capital Grants Unapplied: the Council receives grants and contributions towards capital expenditure, and, where repayment conditions are not present or no longer apply, they are credited to the CI&ES and immediately transferred into the Capital Grants Unapplied Reserve until required to finance capital investment.
- Earmarked Reserves: the Council may set aside earmarked reserves to cover specific projects or contingencies. These are transferred from the General Fund, and amounts are withdrawn as required to finance such expenditure. The expenditure itself is charged to the appropriate line in the Comprehensive Income and Expenditure Statement. There are no legal restrictions on the use of earmarked reserves, and unspent balances can be taken back to the General Fund in the same way.
- General Fund: this represents all other usable reserves, without legal restrictions on spending, which arise from annual surpluses or deficits.

Unusable Reserves consist of those which cannot be used to finance capital or revenue expenditure:

- Revaluation Reserve: this consists of accumulated gains on individual items of Property, Plant and Equipment. The Reserve contains only gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains before that date were consolidated into the balance on the Capital Adjustment Account. The balance is reduced when assets with accumulated gains are:
 - revalued downwards or impaired and the gains are lost
 - used in the provision of services and the gains are consumed through depreciation, or
 - disposed of and the gains are realised.
- Capital Adjustment Account: Receives credits when capital is financed from the General Fund or from the Capital Receipts and Capital Grants Unapplied reserves, and receives debits to offset depreciation and other charges relating to capital which are not chargeable against the General Fund. The account contains

NOTES TO THE ACCOUNTING STATEMENTS

revaluation gains accumulated on non-current assets before 1 April 2007, the date on which the Revaluation Reserve was created to hold such gains.

- **Deferred Capital Receipts:** in some cases (particularly former housing stock disposed of, where the purchaser financed the transaction through a mortgage from the Council) an asset is disposed of, but the income cannot be collected immediately. The Council maintains records for a long term debtor, offset by a balance in the Deferred Capital Receipts Account. When the income is received the debtor is written down and a transfer is made between this account and the Capital Receipts Reserve.
- **Pensions Reserve:** The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.
- **Collection Fund Adjustment Account:** this represents the differences arising from the recognition of Council Tax income and Non-Domestic Rates in the Comprehensive Income and Expenditure Statement as they fall due from payers, compared with the statutory arrangements for paying across amounts from the Collection Fund to the General Fund.
- **Accumulated Absences Reserve:** this contains the difference between the statutory and accounting liability for the cost of accumulated absences: the cost is properly chargeable to the Comprehensive Income and Expenditure Statement, but not to the General Fund.
- **Financial Instrument Revaluation Reserve:** this contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:
 - revalued downwards or impaired and the gains are lost.
 - disposed of and the gains are realised.

20. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the CI&ES in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

21. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

NOTE 2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

- **Definition of a Business:** Amendments to IFRS 3 Business Combinations

NOTES TO THE ACCOUNTING STATEMENTS

- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

It is anticipated that the above amendments will not have a material impact on the information provided in the statement of accounts.

NOTE 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Business rates -The assumptions around the outcome of appeals against the NNDR valuations (either received to date or expected in future years) represent a material and critical judgement applied to the accounts. The appeals provision is empirically derived from the experience with the 2010 lists as well as appeals determinations so far made against the 2017 list. This year the Council have used a third party, Analyse Local, to provide estimates for the provision for appeals.

Future funding for local government – Consultation is underway on changes to the Business Rates Retention scheme, which will ultimately replace existing government grants, creating uncertainty over future levels of funding. However, the Authority has determined that this uncertainty is not sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

Asset classifications – the Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These judgements are based on the main reason that the council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the council they are deemed to be Property, Plant and Equipment assets. If there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method to be used.

Lease classifications – the Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken “in the round” and a decision has been made. The accounting treatment for operating and finance leases is significantly different (see accounting policy on leases) and could have a significant effect on the accounts.

Contractual arrangements – the Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).

Providing for potential liabilities – the Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. The judgements are based on the degree of certainty around the results of pending legal actions.

Production of group accounts – the Council has an interest in another entity, Portchester Crematorium Joint Committee, which manages the operations of Portchester Crematorium. The accounts of this entity have not been consolidated into the financial statements of the Council since grouping the accounts would not materially change the reported figures in the Statement of Accounts.

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Financial Statements contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The main items in the Council's Balance Sheet at 31 March 2021 on which such assumptions have been made are as follows:

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. A firm of consulting actuaries, is engaged to provide the Council with expert advice about the assumptions to be applied.

Changes in any one assumption would be affected by changes in others, so that the effect of a number of changes would be a complex calculation.

Property, Plant and Equipment

The Council's external valuers provide a full valuation of all properties every 5 years. On an annual basis they provided desktop valuations as at 31 March 2021 for all of the Council's investment portfolio and for the top 20% in value of its' operational portfolio and where there has been material movement since the last full valuation. The remaining balance of operational properties was also reviewed to ensure values reflect current values. Valuations of property depend on various assumptions. In particular, valuers have to determine:

- The estimated life of the building.
- Whether or not there is a market for the property in its existing use, which means that they could value at such a market value (EUV). If there is no such market properties are valued at Depreciated Replacement Cost (DRC).

Investment Property

The Council's valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available. Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date. If the value of the Council's investment properties were to reduce by 10% this would lead to a reduction in value of £3.315M.

Allowance for impairments of doubtful debts

The Balance Sheet contains figures for various groups of debtors, including sundry debtors, council tax, non-domestic rates, and recoveries of overpayments of housing benefits. Allowances are made, and updated at the end of each financial year, on the basis of recent rates of recovery of the particular class of debt, as far as it can be ascertained.

Allowance for impact of rating appeals

Following the 2017 revaluation, a new check, challenge, appeal process has been introduced, the impact of which is highly uncertain. The Council has made a provision for the likely impact on the its yield of expected future successful appeals for the period to the end of March 2021.

There are a number of appeals against rating values outstanding, many going back to 1 April 2010, and this Council is liable for its share (40%) of the losses resulting from successful appeals.

The Council has made a provision for the likely impact on the its yield of expected future successful appeals based on both the 2010 and 2017 lists for the period to the end of March 2021 based on work down by Analyse Local.

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 5. EXPENDITURE AND FUNDING ANALYSIS

2019-20				2020-21		
Net Expenditure Chargeable to General Fund	Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to General Fund	Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000		£'000	£'000	£'000
			Director of Corporate Services			
216	81	297	5 Councils Staff and Contract	504	42	546
364	0	364	Executive Office	416	2	418
370	34	404	Head of Legal	828	25	853
1,350	73	1,423	Head of Organisational Development	473	77	550
2,932	256	3,188	Head of Programmes Redesign	2,820	335	3,155
3,316	139	3,455	Head of Customer Services	2,438	86	2,524
3,530	1,318	4,848	Head of Strategic Commissioning	3,692	1,149	4,841
857	(75)	781	Head of Finance	1,099	86	1,185
144	52	197	Head of Commercial Development	0	0	0
			Director of Regeneration and Planning			
187	498	685	Head of Coastal Partnerships	193	434	627
219	231	450	Head of Neighbourhood Support	410	715	1,125
164	86	250	Head of Housing	290	119	409
465	702	1,167	Head of Planning	329	(389)	(60)
754	321	1,075	Head of Community Engagement	435	403	838
(1,705)	2,327	624	Head of Property	(1,361)	1,907	546
358	82	440	Head of Regeneration (South)	399	67	466
941	(1,000)	(59)	Other Operating I&E	(21)	(0)	(21)
14,462	5,125	19,589	Cost of Services	12,944	5,059	18,003
(15,739)	(2,512)	(18,251)	Other Income and Expenditure	(25,686)	(4,186)	(29,872)
(1,277)	2,613	1,338	(Surplus) or Deficit on Provision of Services	(12,742)	873	(11,869)

NOTES TO THE ACCOUNTING STATEMENTS

Earmarked Reserves	General Fund	Total		Earmarked Reserves	General Fund	Total
£'000	£'000	£'000		£'000	£'000	£'000
(2,292)	(7,403)	(9,695)	Opening balances	(7,065)	(3,500)	(10,565)
0	(870)	(870)	(Surplus) or Deficit on Provision of Services	0	(12,742)	(12,742)
(4,773)	4,773	0	Transfers between General Fund and earmarked reserves	(12,732)	12,732	0
(7,065)	(3,500)	(10,565)	Closing General Fund balance	(19,797)	(3,510)	(23,307)

NOTES TO THE ACCOUNTING STATEMENTS

	Financing and Accounting Adjustments				
	Capital and Assets	Pensions	Tax Collection	Other	Total
	£'000	£'000	£'000	£'000	£'000
2019-20					
Director of Corporate Services					
5 Councils Staff and Contract	0	81	0	0	81
Head of Legal	0	34	0	0	34
Head of Organisational Development	1	72	0	0	73
Head of Programmes Redesign	58	198	0	0	256
Head of Customer Services	0	139	0	0	139
Head of Strategic Commissioning	1,316	2	0	0	1,318
Head of Finance	0	13	0	(88)	(75)
Head of Commercial Development	0	52	0	0	52
Director of Regeneration and Planning					
Head of Coastal Partnerships	80	418	0	0	498
Head of Neighbourhood Support	18	213	0	0	231
Head of Housing	0	86	0	0	86
Head of Planning	454	248	0	0	702
Head of Community Engagement	239	82	0	0	321
Head of Property	833	16	0	1,478	2,327
Head of Regeneration (South)	45	37	0	0	82
Other Operating I&E	0		0	(1,000)	(1,000)
Cost of Services	3,044	1,691	0	390	5,125
Other Income and Expenditure from the Expenditure and Funding Analysis	(3,012)	143	1,029	(672)	(2,512)
Total for 2019-20	32	1,834	1,029	(282)	2,613

NOTES TO THE ACCOUNTING STATEMENTS

	Financing and Accounting Adjustments				
	Capital and Assets	Pensions	Tax Collection	Other	Total
	£'000	£'000	£'000	£'000	£'000
2020-21					
Director of Corporate Services					
5 Councils Staff and Contract	0	44	0	(2)	42
Executive Directors	0	13	0	(12)	2
Head of Legal	1	21	0	3	25
Head of Organisational Development	0	37	0	41	77
Head of Programmes Redesign	221	131	0	(17)	335
Head of Customer Services	0	79	0	8	86
Head of Strategic Commissioning	1,697	0	0	(548)	1,149
Head of Finance	0	51	0	35	86
Head of Commercial Development	0	0	0	0	0
Director of Regeneration and Planning					
Head of Coastal Partnerships	15	378	0	42	434
Head of Neighbourhood Support	18	133	0	564	715
Head of Housing	0	57	0	62	119
Head of Planning	(534)	142	0	4	(389)
Head of Community Engagement	430	51	0	(77)	403
Head of Property	339	11	0	1,557	1,907
Head of Regeneration (South)	18	35	0	14	67
Other Operating I&E	0	0	0	(0)	(0)
Cost of Services	2,205	1,183	0	1,671	5,059
Other Income and Expenditure from the Expenditure and Funding Analysis	(11,856)	1,005	8,216	(1,551)	(4,186)
Total for 2020-21	(9,651)	2,188	8,216	120	873

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

	General Fund Balance	Capital Receipts reserve	Capital grants unapplied	Unusable Reserves	Total
	£'000	£'000	£'000	£'000	£'000
2019-20					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Amortise Intangible Assets	(1)			1	0
Depreciation and impairment of non-current assets	(3,224)			3,224	0
Movements in value of Investment Properties	939			(939)	0
Disposal of non-current assets	(374)			374	0
Capital receipts to Usable Capital Receipts Reserve	439	(439)			0
Capital grants and contributions to Capital Grants Unapplied Reserve	2,860		(2,860)		0
Difference between accounting and statutory employment benefit	(50)			50	0
Difference between accounting and statutory credit for Council Tax	49			(49)	0
Difference between accounting and statutory credit for Non-Domestic Rates	(1,078)			1,078	0
Revenue Expenditure Financed from Capital under Statute	(1,159)			1,159	0
Difference between accounting and statutory credit for pension costs	(1,834)			1,834	0
REFCUS income	714			(714)	0
Revaluation losses on PPE					0
Capital Grants and Contributions applied					0
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					
Capital expenditure financed from revenue	175			(175)	0
Statutory Charge MRP	155			(155)	0
Capital expenditure financed from Capital Receipts		353		(353)	0
Capital expenditure financed from Capital grants and contributions			2,131	(2,131)	0
Total for 2019-20	(2,389)	(86)	(729)	3,204	0

NOTES TO THE ACCOUNTING STATEMENTS

	General Fund Balance	Capital Receipts reserve	Capital grants unapplied	Unusable Reserves	Total
	£'000	£'000	£'000	£'000	£'000
2020-21					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Amortise Intangible Assets	(9)			9	0
Depreciation and impairment of non-current assets	(2,203)			2,203	0
Movements in value of Investment Properties	(772)			772	0
Disposal of non-current assets	1			(1)	0
Capital receipts to Usable Capital Receipts Reserve	9,048	(9,048)			0
Capital grants and contributions to Capital Grants Unapplied Reserve	3,586		(3,586)		0
Difference between accounting and statutory employment benefit	(152)			152	(0)
Difference between accounting and statutory credit for Council Tax	72			(72)	0
Difference between accounting and statutory credit for Non-Domestic Rates	(8,288)			8,288	0
Revenue Expenditure Financed from Capital under Statute	(634)			634	0
Difference between accounting and statutory credit for pension costs	(2,188)			2,188	0
REFCUS income	634			(634)	0
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</i>					
Capital expenditure financed from revenue	0				0
Statutory Charge MRP	239			(239)	0
Other adjustments					
Capital expenditure financed from Capital Receipts	(199)	199			0
Capital expenditure financed from Capital grants and contributions			1,322	(1,322)	0
Total for 2020-21	(865)	(8,849)	(2,264)	11,978	(0)

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 7. EXPENDITURE AND INCOME ANALYSED BY NATURE

2019-20		2020-21
Surplus / Deficit on the Provision of Services		Surplus / Deficit on the Provision of Services
£'000		£'000
13,047	Employee benefits expenses	13,476
57,478	Other service expenses	55,680
138	Interest payments	134
2,599	Depreciation, amortisation, impairment etc	2,212
0	Precepts and levies	0
0	Gains on the disposal of assets	0
<u>73,262</u>	Total Expenditure	<u>71,502</u>
(16,850)	Fees, charges and other service income	(16,686)
(86)	Investment Properties changes in fair value	772
(101)	Interest income	(28)
0	Investment income	0
(20,579)	Council Tax and Non-Domestic Rate income	(13,719)
(33,836)	Grants and Contributions	(44,859)
(66)	Gains on the disposal of assets	(8,851)
<u>(71,518)</u>	Total income	<u>(83,371)</u>
<u>1,744</u>	Net	<u>(11,869)</u>

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 8. DEFINED BENEFIT PENSION SCHEME

2019-20 £'000		2020-21 £'000
	Comprehensive Income and Expenditure Statement	
2,835	Current Service Cost	2,358
73	Curtailments	12
2,908	Cost of Services	2,370
1,102	Net interest expense	1,022
1,102	Financing and Investment Income and Expenditure	1,022
4,010	Total Post Employment Benefit Charged to the Surplus/Deficit on the Provision of Services	3,392
14,583	Return on plan assets, less included in interest expense	(20,852)
0	Actuarial gains & losses:	0
(3,995)	Changes in demographic assumptions	0
(3,473)	Changes in financial assumptions	23,973
(10,929)	Other	(1,791)
(3,814)	Remeasurement of the net defined benefit liability	1,330
196	Total Comprehensive Income and Expenditure Statement	4,722
	Movement in Reserves Statement	
4,010	Reversal of items relating to retirement benefit debited or credited to the Comprehensive Income and Expenditure Statement	3,392
(2,176)	Employer's pension contributions and direct payments to pensioners payable in the year	(1,204)
1,834	Total taken to Note 5	2,188
2019-20 £'000	Reconciliation of Fair Value of Employer Assets (scheme Assets):	2020-21 £'000
108,250	Value of Assets at 1 April	94,148
2,573	Interest income on plan assets	2,110
532	Contributions by Members	469
2,176	Contributions by the Employer	1,204
(14,583)	Return on assets excluding amounts recognised in Other Comprehensive Income	20,852
(4,800)	Benefits Paid	(6,528)
94,148		112,255

NOTES TO THE ACCOUNTING STATEMENTS

2019-20		2020-21
£'000	Reconciliation of Defined Benefit Obligation (scheme Liabilities):	£'000
(155,220)	Value of Liabilities at 1 April	(139,138)
(2,835)	Current Service Cost	(2,358)
(3,675)	Interest Cost	(3,132)
(532)	Contribution by Members	(469)
	Actuarial Gains and (Losses):	
3,995	Change in demographic assumptions	0
3,473	Change in financial assumptions	(23,973)
10,929	Other experience gains and (losses)	1,791
(73)	Losses on Curtailments	(12)
4,800	Benefits Paid	6,528
(139,138)		(160,763)
(44,990)	Net Liability at 31st March	(48,508)

2019-20		2020-21
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
23.0	Men	23.1
25.5	Women	25.5
	Longevity at 45 for future pensioners:	
24.7	Men	24.8
27.2	Women	27.3

2019-20		2020-21
2.0%	Rate of inflation (CPI)	2.7%
3.0%	Rate of increase in salaries	3.7%
2.0%	Rate of increase in pensions	2.7%
2.3%	Rate for discounting scheme liabilities	2.1%

NOTES TO THE ACCOUNTING STATEMENTS

Fair value of employer assets

The assets at the year-end listed above are made up of the following categories:

31 March 2020			31 March 2021			
Quoted Prices in Active Markets	Prices not quoted in Active markets	Total	Asset Category	Quoted Prices in Active Markets	Prices not quoted in Active markets	Total
%	%	%		%	%	%
44.10%	8.60%	52.70%	Equities	49.40%	7.60%	57.00%
0.80%	6.50%	7.30%	Property	0.80%	5.30%	6.10%
21.80%	0.00%	21.80%	Government Bonds	17.30%	0.00%	17.30%
0.00%	0.00%	0.00%	Corporate Bonds	0.00%	0.00%	0.00%
2.00%	0.00%	2.00%	Cash	1.40%	0.00%	1.40%
14.10%	2.10%	16.20%	Other	15.90%	2.30%	18.20%
82.80%	17.20%	100.00%	Totals	84.80%	15.20%	100.00%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension scheme liabilities have been assessed by Aon, estimates being based on the latest full valuation of the scheme as at 31 March 2019.

Sensitivity analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period.

Impact on the defined benefit obligation in the scheme

	Increase in assumption £000s	Base Figure £000s	Decrease in assumption £000s
Post retirement mortality (increase or decrease in 1 year)	165,747	159,987	154,387
Rate of increase in salaries (increase or decrease by 0.1%)	160,147	159,987	159,827
Rate of increase in pensions (increase or decrease by 0.1%)	162,707	159,987	157,427
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	157,107	159,987	162,867

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 9. INCOME FROM GRANTS AND CONTRIBUTIONS

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

2019-20 £'000		2020/21 £'000
(25,951)	DWP benefits grants	(24,068)
(714)	Grants for revenue financed from capital under statute	(634)
	Council tax hardship	(1,100)
(1,029)	Other Grants and Contributions	(1,922)
(27,694)	Total within Cost of Services	(27,724)
0	Sales fees and Charges	(1,041)
0	Covid LA Support Grant	(2,121)
0	Benefits Administration Grant	0
(1,587)	New Homes Bonus	(902)
(1,652)	Business Rate Grants	(9,217)
0	Local Services Support Grant	0
0	Community Housing Fund	0
(43)	Other non-specific grant	(267)
(2,860)	Grants and contributions towards capital expenditure	(3,586)
(6,142)	Total within Taxation and non-specific grant income	(17,134)
(33,836)	Total income from grants and contributions	(44,858)

NOTE 10. MATERIAL ITEMS OF INCOME AND EXPENDITURE

The Council did not purchase any significant assets during the year. The Council did dispose of Brockhampton West site for which it received a capital receipt of

£8 million

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 11. EARMARKED RESERVES

The Council maintains a number of Earmarked Reserves for a variety of purposes. Below is an analysis of the Council's reserves showing the movements and transfers that took place.

	Balance at 31 March 2019	Transfers out 2019/20	Transfers in 2019/20	Balance at 31 March 2020	Transfers out 2020/21	Transfers in 2020/21	Balance at 31 March 2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund - earmarked	(1,208)	1,185	0	(23)		0	(23)
S31 Grant Reserve	0	0	0	0	0	(8,623)	(8,623)
Insurance Reserve	(653)	0	0	(653)	0	0	(653)
Capital Reserve	(13)	13	0	0	0	0	0
Restructuring Reserve	(418)	0	0	(418)	0	0	(418)
Financial Management Reserve	0	0	(3,867)	(3,867)	0	0	(3,867)
Externally funded Reserve - earmarked reserve	0	0	(609)	(609)	609	0	0
Service Support Reserve	0	0	(114)	(114)	0	(1,190)	(1,304)
Regeneration Reserve	0	0	(431)	(431)	0	(559)	(990)
Regeneration Investment Framework Reserve	0	0	(950)	(950)	0	0	(950)
Covid Financial Resilience Reserve	0	0	0	0		(2,180)	(2,180)
Pensions Resilience Reserve	0	0	0	0	0	(789)	(789)
Total	(2,292)	1,198	(5,971)	(7,065)	609	(13,341)	(19,797)

The purposes of these reserves are set out below:

General Fund Earmarked Reserve	To fund specific projects
S31 Grant Reserve	To hold S31 grant balances due to timing of when the grant is received and when it is applied.
Insurance Reserve	To fund any insurance claims below the excess during the year.
Capital Reserve	To fund specific capital projects.
Restructuring Reserve	To fund costs associated with the restructure of the Council.
Financial Management reserve	To meet any potential future financial liabilities that may arise (for example insurance claims)
Externally Funded Reserve	These are all external contributions which are committed to specific projects.

NOTES TO THE ACCOUNTING STATEMENTS

ServiceSupport Reserve	To cover specific service projects which may arise in the future (e.g. economic development work or Local Plan work)
Regeneration Reserve	To ring fence income from Meridien for future economic development
Covid Financial Resilience Reserve	To provide financial resilience to the Council post Covid.
Regeneration Investment Framework Reserve	To provide funding for future regeneration of the Borough
Pensions Resilience Reserve	To provide funding for pension in the future to help mitigate the deficit.

NOTE 12. UNUSABLE RESERVES

	Balance 1 April 2019	Comp- rehensive I&E	Accounting - Financing Adjust.	Balance 31 March 2020
	£'000	£'000	£'000	£'000
Revaluation Reserve	(37,582)	(3,756)	1,395	(39,943)
Capital Adjustment Account	(43,361)	0	(1,104)	(44,465)
Pensions Reserve	46,930	(3,774)	1,834	44,990
Collection Fund Adjustment Account	119	0	1,029	1,148
Accumulated Absences Account	80	0	50	130
Total for 2019-20	(33,814)	(7,530)	3,204	(38,140)

	Balance 1 April 2020	Comp- rehensive I&E	Accounting - Financing Adjust.	Balance 31 March 2021
	£'000	£'000	£'000	£'000
Revaluation Reserve	(39,943)	(152)	1,051	(39,044)
Capital Adjustment Account	(44,465)	0	371	(44,094)
Pensions Reserve	44,990	1,330	2,188	48,508
Collection Fund Adjustment Account	1,148	0	8,216	9,364
Accumulated Absences Account	130	0	152	282
Total for 2020-21	(38,140)	1,178	11,978	(24,984)

NOTES TO THE ACCOUNTING STATEMENTS

Capital Adjustment Account

2019-20 £000		2020-21 £000
(43,361)	Balance 1 April	(44,465)
	Accounting / Financing Adjustments:	
1	Write down Intangible Assets	9
3,224	Depreciation and impairment of non-current assets	2,203
(937)	Movements in value of Investment Properties	772
374	Gain or (loss) on sale of non-current assets	0
445	Revenue Expenditure Financed from Capital under Statute	634
	Revenue Expenditure Financed from Capital under Statute -	
0	Income	(634)
(176)	Capital expenditure financed from revenue	0
(353)	Capital expenditure financed from Capital Receipts	0
	Capital expenditure financed from Capital grants and	
(2,131)	contributions	(1,323)
(156)	MRP	(239)
(1,395)	Depreciation charged to Revaluation Reserve	(1,051)
(44,465)	Balance 31 March	(44,094)

Revaluation Reserve

2019-20 £000		2020-21 £000
(37,582)	Balance 1 April	(39,943)
	Comprehensive Income & Expenditure:	
(3,756)	Gain on revaluation of assets	(152)
	Accounting / Financing Adjustments:	
1,395	Depreciation charged to Revaluation Reserve	1,051
(39,943)	Balance 31 March	(39,044)

NOTES TO THE ACCOUNTING STATEMENTS

Pensions Reserve

2019-20	2020-21
£000	£000
46,930 Balance 1 April	44,990
Comprehensive Income & Expenditure:	
(3,814) Remeasurement of the net defined benefit liability	1,330
40 Prior year adjustment	0
Accounting / Financing Adjustments:	
1,834 Difference between accounting and statutory credit for pension costs	2,188
44,990 Balance 31 March	48,508

Collection Fund Adjustment Account

2019-20	2020-21
£000	£000
119 Balance 1 April	1,148
Accounting / Financing Adjustments:	
(49) Difference between accounting and statutory credit for Council Tax	(72)
1,078 Difference between accounting and statutory credit for Non-Domestic Rates	8,288
1,148 Balance 31 March	9,364

NOTES TO THE ACCOUNTING STATEMENTS

Accumulated Absences Account

2019-20		2020-21
£000		£000
80	Balance 1 April	130
	Accounting / Financing Adjustments:	
	Difference between accounting and statutory employment benefit	152
<hr/>	130 Balance 31 March	<hr/>
		282

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 13. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure charged in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue, as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

The Capital Financing Requirement (CFR) is made up of the following balance sheet items.

2019-20		2020-21
£'000		£'000
9,833	Opening Capital Financing Requirement 1 April	13,606
	<i>Capital Investment</i>	
1,981	Property, Plant and Equipment	1,322
4,392	Investment properties	0
22	Intangible assets	1
1,159	Revenue Expenditure Funded from Capital under Statute (REFCUS)	634
	<i>Sources of finance</i>	
(355)	Capital receipts	0
(2,380)	Government grants and other contributions	(1,322)
(176)	Sums set aside from revenue and reserves	0
(714)	Grants and contributions towards REFCUS	(634)
(156)	MRP	(239)
13,606	Closing Capital Financing Requirement 31 March	13,368
31 March 2019		31 March 2020
£'000		£'000
65,471	Property, Plant and Equipment	64,104
32,501	Investment Properties	32,367
42	Intangible Assets	34
0	Assets Held for Sale	0
(39,943)	Revaluation Reserve	(39,043)
(44,465)	Capital Adjustment Account	(44,094)
13,606		13,368

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings	Vehicles Plant etc	Infra-structure	Commun. Assets	Assets under Const-ruktion	Surplus Props.	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost:							
Opening value 1 April 2019	59,774	7,366	1,999	5,059	0	0	74,198
Additions	847	156	978	0	0	0	1,981
Disposals	(708)	(1,742)	0	(163)	0	0	(2,613)
Impairment losses	(1,195)	0	0	0	0	0	(1,195)
Reclassifications	661	0	(17)	(1,893)	0	0	(1,249)
Revaluations	1,713	0	0	0	0	0	1,713
Value 31 March 2020	61,092	5,780	2,960	3,003	0	0	72,835
Cumulative Depreciation:							
Opening value 1 April 2019	(747)	(6,984)	(445)	(1,306)	0	0	(9,482)
Charge for the year	(1,605)	(75)	(31)	(23)	0	0	(1,734)
Disposals	86	1,742	0	163	0	0	1,991
Reclassifications	0	0	0	0	0	0	0
Revaluations	1,861	0	0	0	0	0	1,861
Balance 31 March 2020	(405)	(5,317)	(476)	(1,166)	0	0	(7,364)
Net book value 31 March 2020	60,687	463	2,484	1,837	0	0	65,472

	Land & Buildings	Vehicles Plant etc	Infra-structure	Commun. Assets	Assets under Const-ruktion	Surplus Props.	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost:							
Opening value 1 April 2020	61,092	5,780	2,960	3,003	0	0	72,835
Additions	130	56	846	0	290	0	1,322
Disposals	0	0	0	0	0	0	0
Impairment losses	(285)	0	0	0	0	0	(285)
Reclassifications	97	344	(1,012)	(67)	0	0	(638)
Revaluations	(1,302)	0	0	0	0	0	(1,302)
Value 31 March 2021	59,732	6,180	2,794	2,936	290	0	71,932
Cumulative Depreciation:							
Opening value 1 April 2020	(405)	(5,317)	(476)	(1,166)	0	0	(7,364)
Charge for the year	(1,758)	(75)	(63)	(23)	0	0	(1,919)
Disposals	0	0	0	0	0	0	0
Reclassifications	(114)	(186)	300	0	0	0	0
Revaluations	1,454	0	0	0	0	0	1,454
Balance 31 March 2021	(823)	(5,578)	(239)	(1,189)	0	0	(7,829)
Net book value 31 March 2021	58,909	602	2,555	1,747	290	0	64,103

Assets are revalued on a 5-year programme. The useful economic life of operational land and buildings is also assessed. An annual desktop assessment is also carried out at the end of each financial year, and the values are

NOTES TO THE ACCOUNTING STATEMENTS

updated where necessary. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

There are no quoted prices for identical assets, but there are values available for similar assets, so it has been possible to value them at Level 2 of the Fair Value hierarchy (see Note 2.9 above), both at the start and end of the financial year.

The following table shows the split of the certified valuations for Property plant and equipment across the financial years.

	Land & Buildings	Vehicles Plant etc	Infra- structure	Community Assets	Total
	£'000	£'000	£'000	£'000	£'000
Carried at historical cost:		5,836	4,096	2,936	12,868
Carried at fair value as at:					
31-Mar-21	39,536				39,536
31-Mar-20	7,035				7,035
31-Mar-19	1,628				1,628
31-Mar-18	5,028				5,028
31-Mar-17	5,837				5,837
Total cost or valuation	59,064	5,836	4,096	2,936	71,932

Capital Commitments

At 31 March 2021, there were no material capital commitments outstanding

At 31 March 2021 there were no other commitments relating to capital expenditure on Property Plant and Equipment.

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 15. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2019-20		2020-21
£'000		£'000
(1,707)	Rental income from investment property	(2,351)
228	Direct operating expenses arising from investment property	573
(822)	Net gains from fair value adjustments	772
(2,301)	Total	(1,006)

Balance Sheet movements in Investment Properties during the year:

2019-20		2020-21
£'000		£'000
26,055	Balance at start of the year	32,501
4,391	Additions	0
822	Net gains from fair value adjustments	(772)
1,233	Assets reclassified to Property Plant & Equipment	638
32,501	Balance at end of the year	32,367

The Council's Investment Properties consist of commercial properties let at market rents. There are no quoted prices for identical properties, and also no significant observable values for similar properties. Values have therefore been assessed under Level 3 of the Fair Value hierarchy (see Note 2.9 above), both at the start and end of the financial year. They are measured using the income approach, by means of the discounted cash flow method, where the discounted cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. In all cases the highest and best use for these assets is their current use.

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 16. DEBTORS

31 March 2020		31 March 2021
£'000		£'000
	Amounts falling due within one year:	
289	Central government bodies	677
0	Central Government bodies - Business rates	9,710
5,531	Other Local Authorities & Public Bodies	4,746
0	Other Local Authorities & Public Bodies - business rates	1,942
6	NHS	0
7,869	All other bodies	9,143
	Less allowances for expected credit losses	
(507)	General Fund debtors	(635)
(2,579)	Housing benefit Overpayments	(2,810)
(214)	Council Tax Arrears	(214)
(129)	Business Rates Arrears	(246)
10,266	Total short term debtors	22,313
124	Amounts falling due after one year (all other bodies)	615
10,390	Total Debtors	22,928

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 17. CREDITORS

31 March 2020		31 March 2021
£'000		£'000
	Amounts falling due within one year:	
(3,729)	Central government bodies	(22,432)
(888)	Other Local Authorities & Public Bodies	(2,564)
(4)	Public Corporations	0
	Accumulated Absences	(282)
(8,497)	All other bodies	(7,328)
(13,118)	Total short term creditors	(32,606)
0	Amounts falling due after one year (all other bodies)	0
(13,118)	Total Creditors	(32,606)

NOTE 18. PROVISIONS AND CONTINGENT LIABILITIES

Provisions

	Insurance Fund	Milestone Payments	Business Rates Backdated Appeals	Municipal Mutual Insurance	Total
	£'000	£'000	£'000	£'000	£'000
Balance outstanding at 1 April 2020	(55)	(598)	(1,928)	(11)	(2,592)
Additional provisions made during the year			(735)		(735)
Amounts used in the year	6	448	1,085	2	1,541
Balance outstanding at 31 March 2021	(49)	(150)	(1,578)	(9)	(1,786)
Under 1 year	(49)	(150)			(199)
1 year and over			(1,578)	(9)	(1,587)
Balance outstanding at 31 March 2021	(49)	(150)	(1,578)	(9)	(1,786)

The Council has a liability for its share of refunds of rate income arising from successful appeals against rateable values. The provision decreased by £350K to £1.578m in 2020/21.

The Council has a liability for its share of the milestone payments that were due to Capita at certain stages of the contract. At the 31 March 2021 Havant's share of the liability amounted to £150K.

Contingent Liabilities

There are no contingent liabilities as at 31 March 2021.

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 19. CAPITAL GRANTS RECEIPTS IN ADVANCE

31 March 2020	£'000		31 March 2021	£'000
		Amounts falling due within one year:		
	0	S106		0
	(280)	Other		(81)
	(280)	Total short term capital grants received in advance		(81)
		Amounts falling due after one year (all other bodies)		
	(2,611)	S106		(2,449)
	(1,638)	Other		(1,560)
	(4,249)	Total long term capital grants received in advance		(4,009)

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 20. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2020			31 March 2021	
Book Value	Fair Value		Book Value	Fair Value
£,000	£,000		£,000	£,000
124	124	Financial assets at amortised Cost	615	615
124	124	Long term Assets	615	615
3,180	3,180	Short Term Debtors	2,215	2,215
23,968	23,968	Cash and bank accounts	45,532	45,532
27,148	27,148	Other financial assets at amortised cost	47,747	47,747
27,272	27,272	Total Financial Assets	48,362	48,362
31 March 2020			31 March 2021	
Book Value	Fair Value		Book Value	Fair Value
£,000	£,000		£,000	£,000
(102)	(122)	Public Works Loan Board	(106)	(106)
(6,162)	(6,162)	Short Term Creditors	(6,373)	(6,373)
(6,264)	(6,284)	Short Term Financial liabilities at amortised cost	(6,479)	(6,479)
(3,253)	(3,885)	Public Works Loan Board	(3,152)	(3,930)
(3,253)	(3,885)	LongTerm Liabilities at amortised cost	(3,152)	(3,930)
(9,517)	(10,169)	Total Financial Liabilities	(9,631)	(10,409)

The value of debtors and creditors reported in the table above are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet and Notes 17 and 18 also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

NOTES TO THE ACCOUNTING STATEMENTS

Valuation Techniques for Fair Values

The fair values valuations have been provided by the Council's Treasury Management advisor, Link Asset Services. This uses the Net Present Value (NPV) approach, which provides an estimate of the value of payments in the future in today's terms. This is a widely accepted valuation technique commonly used by the private sector. The discount rate used in the NPV calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation, for an instrument with the same duration i.e. equal to the outstanding period from valuation date to maturity. The structure and terms of the comparable instrument should be the same.

Fair values in the tables above are calculated in line with the levels described in Accounting Policy 2.9 above. The Fair value through the profit and loss assets are assessed at Level 1 (quoted price), while the others are at Level 2 (observable inputs other than quoted prices).

For loans from the PWLB, valued in line with level 2, new loan rates from the PWLB have been applied to provide the fair value.

Nature and Extent of Risks arising from Financial instruments

The Council's activities expose it to a variety of financial risks:

- (i) credit risk - the possibility that other parties might fail to pay amounts due to the Council.
- (ii) liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments.
- (iii) market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movement.

The Council's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise the potential adverse effects on the resources available to fund services. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Risk Management is carried out by the Financial Services Team in accordance with the policies laid out in the Annual Treasury Management Strategy Statement and Annual Investment Strategy, which govern the maximum type of investment risk to which the Council can be exposed.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet minimum credit criteria using the Link Asset Services creditworthiness model. The model uses a sophisticated modelling approach which uses credit ratings from all three ratings agencies (Fitch, Moody's and Standard and Poor's) overlaid with credit watches and outlooks, Credit Default Swap spreads and sovereign ratings. Deposits are not made with banks or financial institutions unless they are rated independently with a minimum score. The minimum score will depend on the type and length of investment as detailed in the Council's Treasury Management Strategy Statement and Annual Investment Strategy. Credit limits are set for each institution where deposits are placed.

The credit criteria in respect of the financial assets held by the Council at 31 March 2021 are summarised below.

- i. All investments will be with approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch.
- ii. The total principal funds invested for up to 6 months is 50%
- iii. The total principal funds invested for up to 3 months is 50%
- iv. The total principal funds invested for up to 1 year is 30%
- v. The total principal funds invested for more than 1 year is £10million

A copy of the Annual Treasury Management Strategy Statement Annual Investment Strategy is available on the Council's website.

NOTES TO THE ACCOUNTING STATEMENTS

The following analysis summarises the Council's potential maximum exposure to credit risk, based on a review during 2020/21 of past experience:

The council does not generally allow credit for customers such that [£1.542m] is past due for payment. The past due not impaired is analysed as follows'

31 March 2020		31 March 2021
£'000		£'000
1,220	0-30 days	989
458	31-90 days	54
75	91-180 days	65
473	Over 180 days	434
2,226	Total	1,542

Debtors include trade receivables of £1.542m as at 31 March 2021 (£2.226m as at 31 March 2020).. The Council has provided £0.453m (31 March 20 £0.326m) as a general impairment allowance for non-collection of this debt.

Liquidity Risk

The Council has a robust cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has access to borrowings from the Public Works Loans Board for long term funding and substantial reserves. Interest rate risk is managed through the Council's Medium Term Financial Strategy Reserve. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

31 March 2020	PWLB	31 March 2021
£'000		£'000
101	Less than one year	102
105	Between one and two years	107
341	Between two and five years	605
668	Maturing in five to ten years	682
2,038	Maturing in more than ten years	1,756
3,253	Total	3,252

Market Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments. Changes in interest rates on variable rate investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund balance. The average investment rate for the reported year was 0.07%.

If interest rates had been 1% higher as at 31 March 2021 with all other variables held constant, the financial effect would be:

	£'000
Increase in interest receivable on variable rate investments	(373)
Impact on Surplus/Deficit on Provision of Services	(373)

NOTES TO THE ACCOUNTING STATEMENTS

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

NOTE 21. AGENCY SERVICES

Agency Services are services that the authority provides on behalf of another organisation. The Authority acts as an agent for the collection of Council Tax and Business Rates as an agent for major precepting bodies and Central Government. Income and Expenditure relating to these arrangements are disclosed within the Collection Fund outturn. The Authority acts as an agent for the South Downs National Park for certain planning services. The Authority also acts as an agent on behalf of Central Government for the payment of Housing Benefit. The cost of providing Housing Benefit is met from subsidy paid by Government.

Covid Grants paid on agency basis	Income	Expenditure	Repayment of Excess	Total to be re-paid
	£'000	£'000	£'000	£'000
Financial Year: 2020-21				
Local Restrictions Support Grant (Closed) Addendum	(1,675)	991		(684)
Additional Restrictions Grant	(3,646)	1,579		(2,067)
Local Restrictions Support Grant (Open)	(228)	23		(205)
Local Restrictions Support Grant (Closed) 5 Jan 21 onwards	(6,174)	3,599		(2,575)
Business Grants	(25,004)	17,298	7,558	(148)
Closed Business Support Payment	(5,022)	2,948		(2,074)
Test & Trace	(314)	87		(227)
TOTAL	(42,063)	26,525	7,558	(7,980)

NOTE 22. LEASES –

Authority as Lessee

The Authority may enter into lease arrangements to obtain assets used to provide services as an alternative to purchasing. Additionally, the Authority also leases out assets, for example, to community organisations. Lease arrangements may be finance or operating leases. The purpose of this note is to disclose the nature and extent of the Authority's leasing obligations.

Lease Classifications

Leases are classified either as finance leases or operating leases. A finance lease is an arrangement where substantially all of the risks and rewards that are incidental to ownership of the asset, transfer from the lessor to the lessee. Leases that do not transfer substantially all of the risk and rewards are classified as operating leases. Where an arrangement includes both land and buildings, the land and buildings element are considered separately for classification and leases of land are generally considered to be operating leases.

NOTES TO THE ACCOUNTING STATEMENTS

Authority as Lessee: Finance Leases

The Authority does not lease any of its assets under a finance lease agreement.

Authority as Lessee: Operating Leases

The Authority leases land and property under operating leases for the following purposes:

- For the provision of community services including sports facilities, community centres and village halls.
- For economic development purposes, to provide affordable retail accommodation for local business.
- To provide allotment space for local residents.

The future minimum lease payments receivable under non-cancellable leases are:

31 March 2020 £'000		31 March 2021 £'000
2,465	Not later than one year	2,435
8,654	Later than one year and not later than five years	8,189
64,854	Over 5 years	60,686
<u>75,973</u>		<u>71,310</u>

NOTE 23. MEMBERS' ALLOWANCES

Allowances and expenses paid to Councillors during the year were:

2019-20 £'000		2020-21 £'000
308	Members Allowances	325
5	Expenses	0
<u>313</u>		<u>325</u>

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 24. OFFICERS' REMUNERATION AND EXIT PACKAGES

Senior Officer Remuneration

The Council's Senior Employees' remuneration and expenses was as follows:

Post holder information (Post title)	Salary (Inc. fees & Allowances)	Pension Contributions**	Net cost to Havant	Net cost to East Hants	Total Remuneration
	£	£			£
Financial Year: 2019-20					
Chief Executive	134,959	21,715	78,337	78,337	156,674
Director for Regeneration & Place	100,481	15,976	58,228	58,228	116,457
Director for Corporate Services & Chief Finance Officer	102,000	16,422	59,211	59,211	118,422
Director for Operations & Neighbourhood Support (Until August 2019)	28,900	4,654	16,777	16,777	33,554
TOTAL COST	366,339	58,767	212,553	212,553	425,106

Post holder information (Post title)	Salary (Inc. fees & Allowances)	Pension Contributions**	Net cost to Havant	Net cost to East Hants	Total Remuneration
	£	£			£
Financial Year: 2020-21					
Chief Executive	139,087	15,972	77,529	77,530	155,059
Director for Regeneration & Place	102,035	10,394	56,214	56,215	112,429
Director for Corporate Services & Chief Finance Officer	105,104	11,005	58,054	58,055	116,109
TOTAL COST	346,226	37,371	191,797	191,800	383,597

The business case for sharing senior managers across both East Hampshire District Council and Havant Borough Council was agreed by the Council on 30 June 2010. The above officers are all employees of East Hants District Council and 50% of their salaries and pension costs are re-charged annually to Havant Borough Council.

NOTES TO THE ACCOUNTING STATEMENTS

Salaries over £50,000

2019-20		2020-21
8	£50,000 - £54,999	8
5	£55,000 - £59,999	3
0	£60,000 - £64,999	5
2	£65,000 - £69,999	2
1	£70,000 - £74,999	1
4	£75,000 - £79,999	2
0	£80,000 - £84,999	2
1	£85,000 - £89,999	1
0	£90,000 - £94,999	0
0	£95,000 - £99,999	0
0	£100,000 - £104,999	0
<hr/> 21		<hr/> 24

NOTES TO THE ACCOUNTING STATEMENTS

Exit Packages

2019/20				Banding	2020-21			
Number of exit packages			Cost		Number of exit packages			Cost
Compuls. Redund.	Other departures	Total exit packages	Total		Compuls. Redund.	Other departures	Total exit packages	Total
			£					£'000
1	0	1	885	£0 - £20,000	0	0	0	0
1	0	1	28,092	£20,001 - £40,000	0	0	0	0
0	0	0	0	£40,001 - £60,000	0	0	0	0
0	0	0	0	£60,001 - £80,000	0	0	0	0
0	0	0	0	£80,001 - £100,000	0	0	0	0
0	0	0	0	£100,001 - £150,000	0	0	0	0
0	0	0	0	-	0	0	0	0
0	0	0	0	£150,000	0	0	0	0
2	0	2	28,977		0	0	0	0

NOTE 25. EXTERNAL AUDIT COSTS

Fees were payable to EY as the Council's external auditors as follows:

2019-20 £'000		2020-21 £'000
37	External audit services*	36
9	Other services	0
46		36

*Final fees to be agreed

NOTE 26. RELATED PARTIES

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Central Government

Central government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are detailed in Note 9.

NOTES TO THE ACCOUNTING STATEMENTS

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2020/21 is shown in Note 24. During 2020/21, no works or services were commissioned from companies in which Members had an interest. No grants were awarded to organisations in which Members were on the governing body. The relevant members did not take part in any discussion or decision relating to the grants. The Register of Members Interests are available for public inspection.

Officers

There was no known material related party transaction with officers for 2020/21 or for 2019/20.

2019-20 £	Organisation	Nature of control	2020-21 £
114,000	Havant & District Citizens Advice Bureaux	payment of a grant under a service level agreement	114,000
38,356	Community First	payment of a grant under a service level agreement and a contribution towards the cost of providing meals for the elderly	47,650
<hr/> 152,356	Total		<hr/> 161,650

Entities Controlled or Significantly influenced by the Authority

A Joint Management structure is established with East Hampshire District Council. Details of the transactions with East Hampshire District Council can be found in Note 24 Officers' remuneration

NOTE 27. INTERESTS IN OTHER ENTITIES

The Council must consider all of its interests in entities and prepare a full set of group accounts where they have material interests in subsidiaries, associates or joint ventures. The following actions are carried out:

- Determine whether the Council has any form of interest in an entity
- Assess the nature of the relationship with the Council
- Determine the grounds of materiality whether group accounts should be prepared.

Having considered the accounting requirements and the Council's involvement with all companies and organisations, Group Accounts have not been prepared.

Nose South East

- NORSE SOUTH EAST LTD is a joint venture between Havant Borough Council and NORSE COMMERCIAL SERVICES LTD (Part of NORSE GROUP – wholly owned by NORFOLK COUNCIL)
- NORSE COMMERCIAL SERVICES LTD own 100% of the A shares – 8 shares of £1 each
- Havant Borough Council own 100% of the B shares – 2 shares of £1 each

NOTES TO THE ACCOUNTING STATEMENTS

- The Shareholders Agreement provides detail on how the directors and board shall operate, and how profit before tax is to be shared (50:50). Havant get their 50% share as a “discount/rebate”. The profit after paying this discount back to Havant is subject to Corporation tax and profits net of tax belong totally to Norfolk Council.
- It is considered by all parties that it is a teckal company for both Havant and Norfolk.

Other Partnerships

The Council has an interest in Portchester Crematorium Joint Committee which manages the operations of Portchester Crematorium. The Joint Committee is represented equally by the four constituent authorities, Fareham Borough Council, Havant Borough Council, Gosport Borough Council and Portsmouth City Council. Further information can be obtained from: The Treasurer to the Joint Committee, Civic Centre, Civic Way, Fareham. The accounts of this entity have not been consolidated into the financial statements of the Council. Havant Borough Council's share of the net assets of Portchester Crematorium Joint Committee is £2,444,228 (£2,458,943 in 2019/20). During 2020/21 the Council received £180,000 from the Portchester Crematorium Joint Committee (£160,000 in 2019/20) being its share of the distributable surpluses.

COLLECTION FUND STATEMENT AND NOTES

2019-20		2020-21
£'000		£'000
	<u>Council Tax</u>	
	INCOME	
(70,464)	Income from Council Taxpayers	(72,990)
(2)	s13A relief	(483)
(70,466)		(73,473)
	EXPENDITURE	
	Precepts and demands on Collection Fund	
50,351	Hampshire County Council	53,068
8,201	Hampshire Police & Crime Commissioner	8,724
2,756	Hampshire Fire & Rescue Authority	2,849
8,324	Havant Borough Council	8,642
	Apportionments of previous year surplus	
93	Hampshire County Council	(467)
14	Hampshire Police & Crime Commissioner	(76)
5	Hampshire Fire & Rescue Authority	(26)
15	Havant Borough Council	(77)
	Bad & Doubtful Debts	
250	Write offs of uncollectable income	148
22	Provision for uncollectable income-addition / (reduction)	48
70,031		72,833
(435)	Movement on Fund Balance - (surplus)/deficit	(640)
	FUND BALANCE FOR COUNCIL TAX	
(273)	Balance brought forward	(708)
(435)	Surplus for year	(640)
(708)	Balance - (surplus)/deficit carried forward	(1,348)

COLLECTION FUND STATEMENT AND NOTES

2019-20 £'000		2020-21 £'000
	<u>Non-Domestic Rates</u>	
	INCOME	
(35,471)	Income from Ratepayers	(15,304)
	Apportionments of previous year deficit	
(257)	Central Government	0
(46)	Hampshire County Council	0
(5)	Hampshire Fire & Rescue Authority	0
(206)	Havant Borough Council	0
(35,985)	Total	(15,304)
	EXPENDITURE	
	Precepts and demands on Collection Fund	
17,146	Central Government	17,781
3,086	Hampshire County Council	3,201
343	Hampshire Fire & Rescue Authority	356
13,717	Havant Borough Council	14,225
	Apportionments of previous year surplus	
	Central Government	202
	Hampshire County Council	36
	Hampshire Fire & Rescue Authority	4
	Havant Borough Council	162
576	Transitional Relief	503
	Bad & Doubtful Debts	
19	Write offs of uncollectable income	0
50	Provision for uncollectable income	294
	Impairments resulting from appeals	
448	Write offs of uncollectable income	448
3,160	Provision for uncollectable income	(1,322)
135	Transfer to General Fund - Cost of Collection Allowance	132
38,680		36,022
2,695	Movement on Fund Balance - (surplus) / deficit	20,718
	FUND BALANCE FOR NON-DOMESTIC RATES	
381	Balance brought forward	3,076
2,695	(Surplus) / deficit for year	20,718
3,076	Balance - (surplus) / deficit carried forward	23,794

NOTE 1. GENERAL

These accounts represent the transactions of the Collection Fund (accounting separately for income relating to council tax and non-domestic rates) which is a statutory fund separate from the main accounts of the Council, although the elements related to this Council are included within its accounting statements and notes. The account has been prepared on the accruals basis. The costs of administering collection are accounted for within Central Services in the Cost of Services in the Comprehensive Income and Expenditure Statement.

NOTE 2. COUNCIL TAX

COLLECTION FUND STATEMENT AND NOTES

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 9 valuation bands (A-H). Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council for the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of Band D dwellings).

Band & Value	Number of Chargeable Dwellings Total	Relationship to Band D	Band D Equivalent £
Band A - up to £40,000 (disabled)	0	5/9	3.97
Band A - up to £40,000	8,374	6/9	3061.77
Band B - over £40,000 up to £52,000	14,375	7/9	8414.87
Band C - over £52,000 up to £68,000	13,057	8/9	9758.16
Band D - over £68,000 up to £88,000	9,947	-	8854.58
Band E - over £88,000 up to £120,000	5,698	11/9	6400.78
Band F - over £120,000 up to £160,000	2,482	13/9	3370.51
Band G - over £160,000 up to £320,000	950	15/9	1477.10
Band H - over £320,000	41	18/9	51.79
	<u>54,924</u>		<u>41,393.32</u>
MOD adjustment			54.70
Tax Base			<u><u>41448.02</u></u>

The Council Tax Base, as shown in the final column above, assumes a collection rate of 98.75% of the numbers of properties adjusted for discounts.

NOTE 3. INCOME FROM BUSINESS RATEPAYERS

Under the arrangements for business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate. The national multipliers for 2019/20 were:

- 49.9p for qualifying Small Businesses (49.1p in 2019/20)
- 51.2p for other businesses (50.4p in 2019/20) – the standard multiplier

The rateable value as at the 31st March 2021 was ££85,112,818 (£86,272,218 as at 31 March 2020).

GLOSSARY

ACCRUALS

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

ACTUARIAL GAINS & LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

AMORTISATION

The practice of reducing the value of intangible assets to reflect their reduced worth over time.

BUDGET

The Council's policy expressed in financial terms for a specified period.

CAPITAL EXPENDITURE

Expenditure on the provision and improvements of lasting assets such as land, buildings, vehicles and equipment. The Council may also incur capital expenditure on assets that it does not actually own (see Revenue Expenditure Financed from Capital under Statute, below).

CAPITAL RECEIPTS

The proceeds from the sale of fixed assets.

CASH EQUIVALENTS

Cash equivalents are investments that mature three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

Standards issued by the accountancy bodies to prescribe approved accounting methods.

COMMUNITY ASSETS

Assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that have restrictions on their disposal. Examples include parks and open spaces.

CONTINGENCY

A condition which exists at the Balance Sheet date and where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

CREDITORS

Amounts owed by the Council but not paid at the date of the balance sheet.

DEBTORS

Amounts owed to the Council but unpaid at the date of the balance sheet.

DEFINED BENEFIT SCHEME

A pension scheme under which benefits are payable under regulations, in which the benefits are not directly related to the scheme investments. The scheme may be funded or unfunded.

DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technological or other changes.

GLOSSARY

EARMARKED RESERVES

Internal reserves set aside to finance future expenditure for purposes falling outside the definition of provisions.

EXCEPTIONAL ITEMS

Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. In simple terms it covers both financial assets and financial liabilities such as trade debtors and trade creditors and derivatives and embedded derivatives.

GENERAL FUND

The main revenue account of the Council which contains the revenue income and expenditure of all services provided.

GOVERNMENT GRANTS

Central Government contributions towards local authority expenditure. Examples are Revenue Support grant and Housing Benefit Subsidy.

INFRASTRUCTURE ASSETS

Long-Term Assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. An example is the sea wall and promenade.

INTANGIBLE ASSETS

Identifiable non-monetary assets such as software licences.

INVESTMENT PROPERTIES

Property held solely to earn rentals or for capital appreciation or both

LEASE

An agreement whereby the lessor conveys to the lessee, in return for a payment or a number of payments, the right to use an asset (property, plant and equipment, investment properties, non-current assets available for sale or intangible assets) for an agreed period of time.

PAST SERVICE COST

Discretionary pension benefits awarded on early retirement are treated as past service costs. This includes added years and unreduced pension benefits awarded before the rule of 85 age.

PRECEPT

The amount of money the County Council, Sussex Police & Crime Commissioner and the Fire Authority have instructed the Council to collect and pay out of council tax receipts held in the Collection Fund. The Council also pays from its General Fund precepts issued by parish and town councils within the district.

PROPERTY, PLANT & EQUIPMENT (PPE)

Tangible assets that yield up benefit to the Council over more than one accounting period, e.g. Land and Buildings.

PROVISIONS

Sums set aside for any liabilities or losses which are likely to be incurred, but uncertain as to the dates on which they will arise.

GLOSSARY

PUBLIC WORKS LOAN BOARD (PWLB)

A Government financed body which provides a source of long term borrowing for local authorities.

REVENUE EXPENDITURE

Day to day expenditure on the running of services. It includes staff costs, utility charges, rent and business rates, IT and communications and office expenses.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Legislation in England and Wales allows certain expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset, for example Disabled Facility Grants.

REVENUE SUPPORT GRANT

A Government grant distributed to local authorities to augment income raised by the council tax. It is centrally determined on a needs basis.

SURPLUS ASSETS

Items of Property Plant and Equipment that are no longer held for council purposes, but are not being actively marketed.

UNUSABLE RESERVES

These are reserves, including those offsetting non-current assets and the negative reserve that offsets the long term pension liability, that are not immediately available to support revenue or capital expenditure.

USABLE RESERVES

These reserves are available to support the Council's expenditure, although the Capital Receipts Reserve and the Capital Grants and Contributions Reserve may only be used for capital purposes.

NON EXEMPT

HAVANT BOROUGH COUNCIL

Audit and Finance Committee

27th April 2022

ANNUAL AUDIT RESULTS REPORT 2020/21

FOR NOTING

**Portfolio: Portfolio Holder for Finance
Cllr Inkster**

Key Decision: No

1.0 Purpose of Report

1.1 This report is submitted to the Audit & Finance Committee to present the Audit Results Report for the year ending 31 March 2021.

2.0 Recommendation

2.1. Audit & Finance Committee is recommended to note the report.

3.0 Executive Summary

3.1. The Audit Results Report presents the outcome of the Audit of the Statement of Accounts and the Value for Money conclusion for the financial year ending 31 March 2021

3.2. The reports states than in the Auditor's our opinion the financial statements:

- give a true and fair view of the financial position of Havant Borough Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

3.3. Unfortunately, due to delays in the audit, the accounts have not been signed off within the statutory deadline of 30 November 2021.

4.0 Additional Budgetary Implications

4.1. None

5.0 Background

5.1. It is a legal requirement that the Council has an external auditor in place. Our external auditor is Ernst & Young who audits the annual accounts.

5.2. The Audit & Finance Committee approved the scope and approach for the audit of the financial statement. The draft audit results report is attached.

6.0 Resource Implications

6.1 Financial Implications - none

6.2 Human Resources Implications – none

6.3 Information Governance Implications – none

6.4 Other Resource Implication - none.

7.0 Legal Implications

7.1 The Annual Audit Report and Statutory Accounts are required to be noted and agreed. If this requirement is not met then the Council will have failed to meet its statutory obligations

8.0 Communication

8.1. The Annual Audit Report and Statutory Accounts will be made publicly available on the Council's website.

9.0 Appendices:

Appendix A: Annual Audit Report

Contact Officer: Matthew Tiller
Job Title: Deputy s151
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Havant Borough Council Audit results report

Year ended 31 March 2021

April 2022

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world



08 April 2022

Dear Audit and Finance Committee Members

2020/21 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit and Finance Committee. We will update the Audit and Finance Committee at its meeting scheduled for 27 April 2022 on further progress to that date and explain the remaining steps, and timeline, to issue of our final opinion.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Havant Borough Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit and Finance Committee meeting on 27 April 2022.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

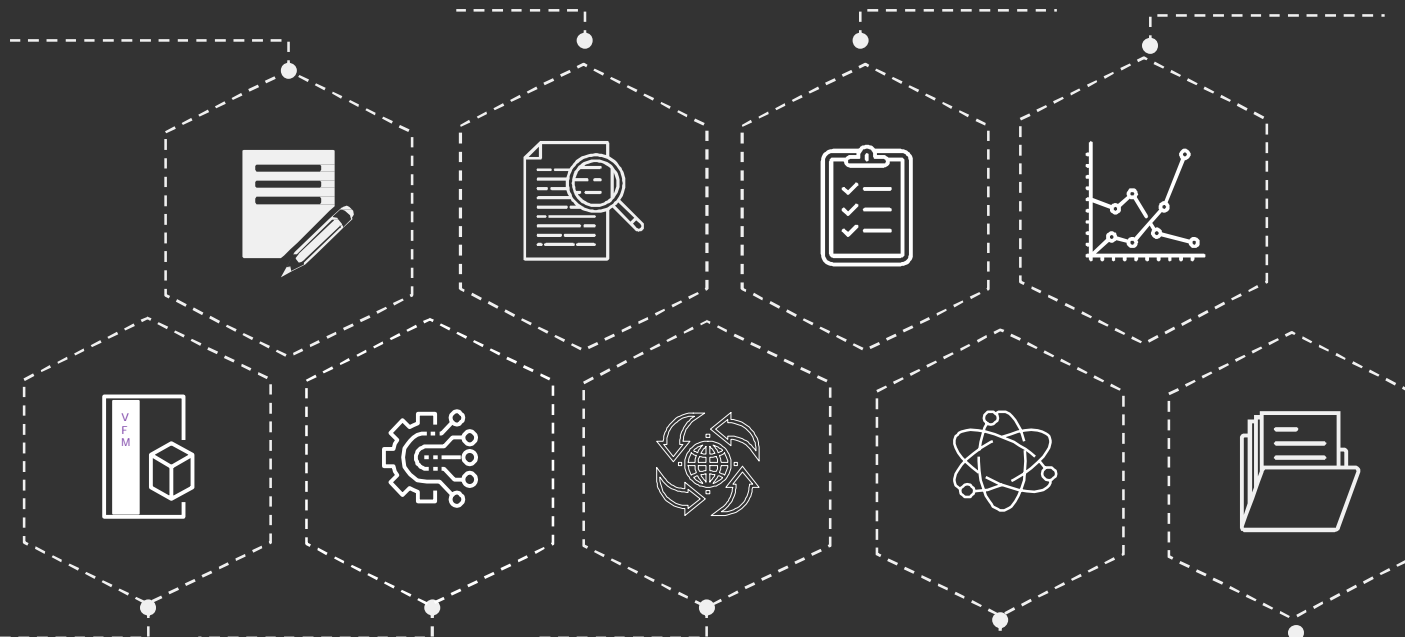
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05 Value for Money

06 Other Reporting Issues

07 Assessment of Control Environment

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 and Finance Committee and management of Havant Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Finance Committee, and management of Havant Borough 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 and Finance Committee and management of Havant Borough 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

Executive Summary

Executive Summary

Scope update

In our audit planning report issued in November 2021, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following updates:

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 2% of gross expenditure on provision of services, adjusted for any unusual items.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We report all uncorrected misstatements relating to the primary statements greater than 5% of planning materiality.
Planning	£1.473 million	£1.105m	£0.074m
Final	£1.448 million	£1.086m	£0.072m

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Auditing accounting estimates

A revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard 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 now 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 may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. We have considered the following areas as higher inherent risk estimates in our approach:

- The revaluation of land and buildings classified as Property, Plant and Equipment (PPE) and Investment Property (IP).
- Pension liability and asset valuation.

Additional audit procedures as a result of Covid-19

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

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.



Executive Summary

Status of the audit

We have substantially completed our audit of Havant Borough Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Property, Plant & Equipment Valuations testing – our work on PPE is substantially complete except for our work on the disposal of the Brockhampton landfill site. We are waiting for information from management to understand when and at what value this property should have been moved to an Asset Held for Sale. This has been discussed with management and they are aware of the information that is outstanding. We are also awaiting the final report from our valuations team, however we do not expect any changes from the draft report.
- Journals - work is ongoing but we expect this to be completed by the meeting.
- Payroll and cash - work is ongoing but we expect this to be completed by the meeting.
- There are small samples outstanding on creditors, leases and taxation and non-specific grants. We expect these to be completed by the meeting.
- A number of tasks are awaiting final review. We expect these to be completed by the meeting.

Our final closing procedures will then be completed:

- Update of our subsequent events procedures to the date of our opinion
- Review of the final version of the financial statements
- Receipt of the signed management representation letter

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the accounts which could influence our final audit opinion.

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 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 has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Council ensures that it makes informed decisions and properly manages its risks; 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.



Executive Summary

Status of the audit – Value for Money

In the audit planning report issued in November 2021, we reported that our value for money (VFM) risk assessment was not fully complete but that, at the time, we had not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have since completed our risk assessment and have also revisited our assessment as we approach completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report.

Audit differences

There is two unadjusted differences as at 8th April 2022:

- PPE Additions - £117k removed from PPE due to a professional fees relating to 21/22 being capitalised in the wrong financial year.
- IAS 19 - £183k adjustment to increase the asset value as per section 2.

Other than minor misstatements in disclosures, we have identified the following misstatements which management have agreed to correct:

- Debtors - £245k held as a credit to debtors has been reclassified to creditors.
- Investment Property - Overstatement of Investment Property of £437k due to the valuer not being provided with the latest income schedule.
- Investment Property - Overstatement of Investment Property - £305k due to asset register not being updated with the valuation amount.
- Housing Benefit Overpayment - £813k relating to overpayment of Housing Benefit was held as income rather than netting off within expenditure
- Covid 19 - £1.6m adjustment to debit expenditure and credit income as the Additional Restrictions Grant and Local Restrictions Support Grant (Open) were classified as agent although it is principal in nature
- Reclassification of Infrastructure assets to OLB (£668k), VPE (£344k) and AUC (£290k), due to being incorrectly classified as infrastructure.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (OSCAR) and update the guidance that is available for preparers. We do not anticipate having any issues to report as the Authority is expected to be below the threshold set by the NAO for full procedures.

We have no other matters to report.

Executive Summary

Objections

We have not received any objections to the 2020/21 accounts from members of the public.

However, the Council has not correctly advertised the accounts and the period of public inspection under the Accounts and Audit Regulations 2015. The accounts published on the Council's website were incomplete, and the period does not cover the required number of 30 days. The Council should re-publish the accounts and inspection notice for the correct period.

Areas of audit focus

In our audit planning report we identified a number of key areas of focus for our audit of the financial report of Havant Borough Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Page 164	Fraud Risk	Findings & Conclusions
	Misstatements due to fraud or error	To date, we have not identified any evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business. We are currently undertaking our journals testing and will give a verbal update at the meeting.
	Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Our sample testing of additions to Property Plant and Equipment (PPE): <ul style="list-style-type: none"> • Found costs had been correctly classified as capital and included at the correct value. • Did not identify any revenue items that were incorrectly classified as capital. Our review of judgements taken by management found them to be reasonable.
	Significant Risk	Findings & Conclusions
	Valuation of Investment Properties	Our work in this area is complete although we are awaiting the final EYRE report. We identified one error where the incorrect income figure was used for the valuation of Basepoint Brambles Plot 8 resulting in an overstatement of £437k. We identified a further error where an investment property valuation was not updated in the asset register resulting in an overstatement of £305k



Executive Summary

Areas of audit focus (continued)

Area of audit focus / Inherent risk	Findings & Conclusions
Valuation of Land and Buildings	Our planned work in this area is complete, although we are awaiting the final EYRE report. We did not identify any errors or inappropriate judgements applied. Further details are set out in Section 2 of this report.
Pension Liability Valuation (Inherent risk)	Our planned work in this area is complete. One adjustment of £183k to increase the pensions asset has been required as a result of our work. Further details are set out in Section 2 of this report.
Going Concern (Area of audit focus)	We have reviewed management's assessment and cashflow forecast. We agree that the Council's accounts should be prepared on the going concern basis. We are satisfied that the disclosures relating to going concern are adequate and sufficiently discloses material events and conditions in relation to the going concern assumption of the Council.
Accounting for Covid-19 related government grants (Inherent risk)	<p>Based on our work performed we were not satisfied with the accounting treatment adopted for some of the Covid-19 related government grants as the draft accounts classified the Additional Restrictions Grant and the Local Restrictions Support Grant on an agency basis. As local councils have the freedom to determine the eligibility criteria for these grants it should be recognised as a principal grant and recognised in income and expenditure of the Council. By treating these on an agency basis the Council only recorded the receipts within the disclosure notes of the draft accounts and not in the primary statements.</p> <p>We have agreed the required adjustment with management. Further details are set out in Section 2 of this report.</p>



Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

During our audit we have identified the following deficiencies in internal control:

- There are fixed assets that have not been appropriately recorded on the fixed asset register.
- Management have struggled to provide listings of debtors and creditors outstanding at year end.

Further information is included in Section 07 of our report.

Independence

Please refer to Section 08 for our update on Independence. We note that there are no matters to draw to the attention of the Audit & Finance Committee.



02 Areas of Audit Focus



Areas of Audit Focus

Fraud risks

Misstatements due to fraud or error

What is the risk?

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

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

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

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What did we do and what judgements did we focus on?

We:

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

We also performed mandatory procedures which we are required to undertake regardless of specifically identified fraud risks. We:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk relating to the revaluation of PPE and IP assets and pension liability and asset valuation.
- Evaluated the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work.

Having re-evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We continued to conclude that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' were required. See the next page for further details.

What are our findings & conclusions?

Based on our work completed to date we have not identified any:

- evidence of material management override;
- instances of inappropriate judgements being applied; or
- any other transactions during our audit which appear unusual or outside the Council's normal course of business.

We are currently completing our journals work and will provide an update on our findings at the meeting. There are no findings to report as at the date of issuing this report.



Fraud risks (continued)

Inappropriate capitalisation of revenue expenditure

What is the risk and potential impact on the financial statements?

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.

We determined that the way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

The manipulation of capitalising expenditure could occur through management override of controls.

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What did we do and what judgements did we focus on?

We:

- Tested PPE additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. There were no investment property additions in the year.
- Tested Revenue Expenditure Funded by Capital under Statute (REFCUS) to ensure that it was appropriate for the expenditure incurred to be funded from capital sources.
- Used our data analytics tools to identify and test the basis for any significant journals transferring expenditure from non-capital codes to PPE additions or from revenue to capital codes on the general ledger at the end of the year.

In testing the capitalised expenditure we focused on the following judgements:

- We sought to gain assurance the capitalised spend clearly enhanced or extended the useful life of assets rather than simply repairing or maintaining the assets on which it was incurred.
- We sought to gain comfort that any development or other related costs that were capitalised were reasonable to capitalise i.e. the costs incurred were directly attributable to bringing the asset into operational use.



Areas of Audit Focus

Fraud risks (continued)

What are our findings & conclusions?

Our sample testing of additions:

- Found costs had been correctly classified as capital and included at the correct value.
- Did not identify any revenue items that were incorrectly classified as capital.

Our review of judgements taken by management found that:

- Where relevant the capitalised spend clearly enhanced or extended the useful life of assets rather than simply repairing or maintaining the assets on which it was incurred.

Other capitalised costs were directly attributable to bringing assets into operational use.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.



Significant risk

Valuations of Investment Property (IP)

What is the risk and potential impact on the financial statements?

The fair value of Investment Properties represent a significant balance in the Authority's accounts and are subject to valuation changes and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balance recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end.

Since late March 2020 in the UK, Covid-19 had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation and this continued to be a factor for 2020/21. Although government's measures have gradually relaxed, the long term effects remains uncertain. Rental income may not be at levels pre-pandemic even after market recovery and there could still be increased levels of tenant defaults or negotiations for rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we therefore raised a significant risk in relation to these type of valuations.



Areas of Audit Focus

Significant risk

What did we do and what judgements did we focus on?

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
 - Sample tested key asset information used by the valuer in performing its valuation and challenged the key assumptions used by the valuer and also ensure that all IP has been revalued in-year. Havant has a balance of £33m investment properties. We selected £24m (15 assets) to test based on a judgemental sampling approach. We have identified these based on the type of property and our expectation of the movement. We have then reviewed the population to ensure that all asset types have been sample tested.
 - Commissioned EY Real Estates (EYRE), our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of 5 assets. Sampling focussed on:
 - Assets more susceptible to the market volatility brought about by C-19. We consider this relates to investment property assets as these are carried at fair value
 - Unexpected fluctuations in valuation year-on-year
- Tested accounting entries have been correctly processed in the financial statements.
- Ensured that appropriate disclosure had been made in the accounts concerning the possibility of 'material uncertainty'.

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What are our findings & conclusions?

- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues, with the exception of the matter below.
- We have reviewed the classification and valuation methods used. We identified no material issues with the classification and valuation methods used by management.
- We reviewed the scope and relationship of the valuer to the Council and identified no issues.
- Management did not disclose any assumptions about the possibility of material uncertainties with regards to IP valuations. Management have agreed to amend the draft accounts accordingly.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not identify any issues.

All properties reviewed by our specialists fell within our expected range. Our local testing of the remainder of the assets used the assurances from our specialists where appropriate, and our work is complete.

One error was identified in relation to Basepoint Brambles Plot 8 where the income figure used by the external valuer was incorrect resulting in an overstatement of £437k. We identified one further error where the asset register was not updated with the valuation for 2020/21 for Warblington Castle Farm resulting in an overstatement of £305k. For the remaining properties in our sample the assumptions used, including those related to ERVs/yields were appropriate. Management are in the process of correcting the accounts.



Areas of Audit Focus

Area of audit focus

Valuation of operational Land and Buildings

What is the risk?

The fair value of PPE represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Page 73

What did we do and what judgements did we focus on?

- We:
- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
 - Sample tested key asset information used by the valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used by the valuer.
 - Tested accounting entries have been correctly processed in the financial statements.
 - Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
 - Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated.



Areas of Audit Focus

Area of audit focus

What are our findings & conclusions?

Havant has an other land and building balance of £58m, with £39m revalued in 20/21.

£19.4m of this is based on an Existing Use Value (EUV) valuation. We judgementally selected £18.3m of this for testing, selecting assets based on size as well as movements not in line with our expectations. We have then ensured that we have tested at least one of each type of asset.

£19.7m relates to DRC valuations and we have selected £18.7m for testing based on a similar judgemental sample as set out above.

We have performed one final review of all asset types to ensure we are reviewing all assets with a movement above our materiality level. This allows us to reduce the risk of misstatement to a sufficiently low level.

We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.

We have reviewed the classification and valuation methods used. We identified incorrect classifications and valuation methods recorded on the asset register, i.e. assets incorrectly classified between EUV and DRC, but confirmed the actual valuation method applied was correct and it was just the asset register classification which was incorrect. We considered the annual cycle of valuations and confirmed that assets have been valued within a 5 year rolling programme as required by the Code.

- We reviewed assets not subject to valuation in 2020/21 and confirmed that the remaining asset base was not materially misstated.
- We reviewed the scope and relationship of the valuer to the Council and identified no issues.
- We were satisfied that disclosures in the accounts were appropriate concerning the material uncertainty.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not identify any issues.

Recommendation:

- We recommend management update the asset register to reflect the correct classification and valuation method for all assets.



Areas of Audit Focus

Area of audit focus

Brockhampton Landfill site

The land at the former Brockhampton landfill site was disposed during the financial year, but we not held on the asset register. This was because a decision had previously been taken that it had £nil value.

In our initial judgement the Council has not correctly accounted for the disposal process. In our view active marketing of the site triggered the need to consider the asset as 'held for sale'. The Code requires an immediate valuation of the asset when this occurs, and the asset should then be held at the lower of the value or fair value less costs of disposal. The Council did not follow this approach.

We have requested the Council investigate this further; to establish:

- The exact date the classification as 'held for sale' occurred. This may require a prior period adjustment if it was before 1 April 2020.
- The valuation as at that change in classification, and therefore, the appropriate carrying value until disposal.

Additionally, we have raised:

- Whether the Council sold all the land in its ownership at that site, and if not what is the valuation of the residual land; and
- Evidence to demonstrate there are no similar cases and that the Fixed Asset Register appropriately contains all assets owned by the Council, even if they have nominal value.

We note that we have received the council's initial considerations in relation to the above, however work is ongoing in this area, and we will provide an update to the Committee meeting on 27 April 2022.

We reflect on this issue as a control deficiency in Section 07.



Areas of Audit Focus

Area of audit focus

Pension Liability Valuation

What is the risk?

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £48.508m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 (revised) require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates..

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What did we do and what judgements did we focus on?

We:

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Havant Borough Council.
- Assessed the work of the Pension Fund actuary (Aon) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office (NAO) for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our findings & conclusions?

- We obtained assurances from the auditors of Hampshire County Council Pension Fund that the information supplied to the actuary in relation to Havant Borough Council was accurate and complete. However, as confirmed by the assurances received from the Pension Fund auditor, an adjustment of £183k was required as a result of our work to reflect the Council's share of the difference between the estimated value of Pension Fund assets submitted to Aon and the final audited value of Pension Fund assets in its 2020/21 financial statements. We have confirmed that this will not be adjusted for the final accounts.
- We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.

The revised auditing standard on estimates requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, were able to access the detailed models of the actuaries in order to evidence these requirements. We therefore modified our planned approach and undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. The results of this exercise showed the actuarial estimate to be accurate within a reasonable range.



Areas of Audit Focus

Area of audit focus

Going Concern

What is the risk?

There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council 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 Council to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Council is also 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.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

What did we do and what judgements did we focus on?

We:

Challenged management's identification of events or conditions impacting going concern.

- Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, in drawing our conclusions on going concern.
- Challenged the disclosure made in the accounts in respect of going concern
- Reviewed the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern including an assessment of any underlying need to borrow.

What are our findings & conclusions?

- Our review of management's continued use of the going concern assumption concludes it remains appropriate.
- The draft accounts did not initially include detailed disclosures in relation to going concern and we challenged management on the adequacy and sufficiency of the disclosure. We subsequently reviewed the revised going concern disclosures for inclusion in the financial statements and proposed relatively minor updates which management made.
- In our view no significant uncertainty exists that may cast doubt on the Council's ability to continue as a going concern, which would be required to be disclosed.
- The key issues we reflected on for our assessment relate to a combination of the Council's liquidity and its level of General Fund reserves. Management's assessment demonstrates that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital.
- The revised accounts adequately and sufficiently discloses material events and conditions in relation to the going concern assumption of the Council and that no material uncertainties exist.



Areas of Audit Focus

Area of audit focus

Accounting for Covid-19 related government grants

What is the risk?

The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

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What did we do and what judgements did we focus on?

We considered the Council's judgement on material grants received in relation to whether it is acting as:

- Agent, where it has determined that it is acting as an intermediary; or
- Principal, where the Council has determined that it is acting on its own behalf.

We sought to determine whether conditions were attached to the grant funding received and whether those conditions were met or not. Considering the outcome of the above we considered the appropriateness of the accounting treatment for the grants, in particular whether the grants were correctly classified, and whether associated disclosures were also accurate.

What are our findings & conclusions?

For those grants received where the Council is acting as an agent we would not expect these to be processed through the income and expenditure accounts but would expect to see the amounts received disclosed in the notes to the accounts. Where the Council acts as principal, these grants should be processed through the comprehensive income and expenditure statement (CIES) as the Council has the control over the allocation of the funding to the beneficiaries of these grants.

Based on our work performed we were not satisfied with the accounting treatment adopted for some of the Covid-19 related government grants as the draft accounts classified the Additional Restrictions Grant and the Local Restrictions Support Grant on an agency basis. Local councils have the freedom to determine the eligibility criteria for these grants, therefore, they should be recognised as a principal grant within the income and expenditure of the Council. By treating these on an agency basis the Council only recorded the receipts within the disclosure notes of the draft accounts and not in the CIES. The grants totalled £1.6m and management have agreed to amend the draft accounts.



03 Audit Report



Audit Report

Draft audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAVANT BOROUGH COUNCIL

Our opinion on the financial statements

Opinion

We have audited the financial statements of Havant Borough Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement and the related notes 1 to 27, and the Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Havant Borough Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Corporate Services use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Corporate Services with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information contained within the Statement of Accounts 2020/21.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is



Audit Report

Draft audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Havant BOROUGH COUNCIL

Our opinion on the financial statements

a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Director of Corporate Services

As explained more fully in the Statement of Responsibilities set out on page 40, the Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Audit Report

Draft audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Havant BOROUGH COUNCIL

Our opinion on the financial statements

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:

- the Local Government Act 1972;
- the Local Government Act 2003;
- the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020;
- the National Health Service Act 2006;
- the Local Audit and Accountability Act 2014; and
- the Accounts and Audit Regulations 2015.

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how Havant Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws

and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Authority's committee minutes. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified the inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine. We also tested the classification of expenditure recorded as revenue expenditure funded by capital under statute (REFCUS) to ensure the correct classification.

To address our fraud risk of management override of controls, we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; assessed accounting estimates for evidence of management bias; and evaluated the business rationale for significant unusual transactions.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Audit Report

Draft audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Havant BOROUGH COUNCIL

Our opinion on the financial statements

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether Havant Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Havant Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Havant Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Havant Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted and uncorrected differences

There is two unadjusted differences as at 8th April 2022:

- PPE Additions - £117k removed from PPE due to a professional fees relating to 21/22 being capitalised in the wrong financial year.
- IAS 19 - £183k adjustment to increase the asset value (page 20).

Other than minor misstatements in disclosures, we have identified the following misstatements which management have agreed to correct:

- Debtors - £245k held as a credit to debtors has been reclassified to creditors.
- Investment Property - Overstatement of Investment Property of £437k due to the valuer not being provided with the latest income schedule (page 16).
- Investment Property - Overstatement of Investment Property - £305k due to asset register not being updated with the valuation amount (page 16).
- Housing Benefit Overpayment - £813k relating to overpayment of Housing Benefit was held as income rather than netting off within expenditure
- Covid 19 - £1.6m adjustment to debit expenditure and credit income as the Additional Restrictions Grant and Local Restrictions Support Grant (Open) were classified as agent although it is principal in nature (page 22)
- Reclassification of Infrastructure asset to OLB (£668k), VPE (£344k) and AUC (£290k) due to being incorrectly held as infrastructure.



05

Value for Money



Value for money

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

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

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA Code of Practice on Local Authority Accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

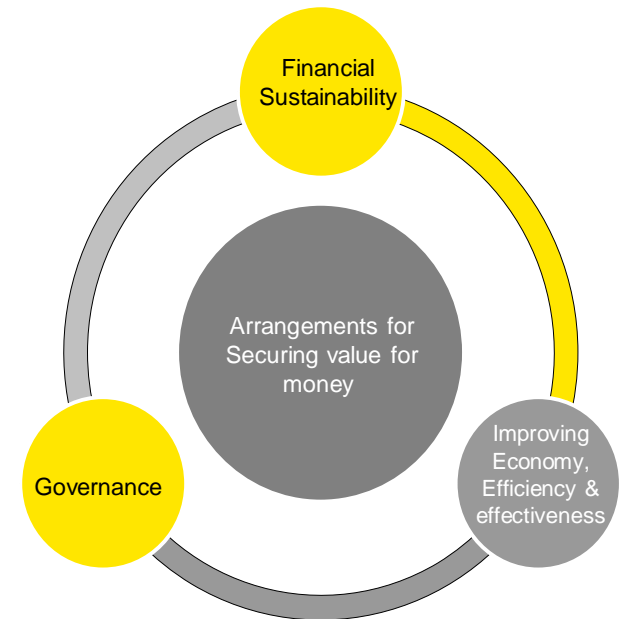
In the audit planning report we reported that our value for money (VFM) risk assessment was not fully complete and that, at the time, we had not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have since completed our risk assessment and have also revisited our assessment as we approach completion of the audit of the financial statements. We remain satisfied that we have not identified a risk of significant weakness.

Status of our VFM work

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report.



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06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the NAO.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (OSCAR) and update the guidance that is available for preparers. We do not anticipate having any issues to report as the Authority is expected to be below the threshold set by the NAO for full procedures.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

No objections were received during the public inspection period. However, we have identified that the Council has not correctly advertised the inspection period as per the requirements of the Audit & Accounts Regulations 2015. Paragraph 14 (1) sets out that the inspection period shall be 30 working days. The accounts published were also incomplete.

The Council needs to correctly re-advertise the period of inspection, including publishing a complete statement of accounts authorised for issue by the s151 officer.

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Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

Any significant difficulties encountered during the audit

When we commenced our final visit the draft accounts were not ready to be submitted for audit. We worked with the Finance team to provide us with schedules/listings in order to make a start on our sampling but then needed to revisit our sampling and revise our materiality levels upon receipt of the draft accounts. Furthermore, once the draft accounts were submitted for audit, there were areas of the accounts which were not yet completed and indicated as 'to follow' and we were unable to perform a thorough review of the accounts at that point in time. This was also the version published on the Council's website. We were then required to revisit our affected working papers subsequent to the receipt of the draft accounts to ensure that the listings tied to the draft accounts and our analytics data and selected additional samples to ensure that we had the appropriate number of samples to reduce our risks to an acceptably low level.

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures - *None*;
- Any significant matters arising from the audit that were discussed with management - *No matters other than contained within this report*;
- Written representations we have requested - *Assurance letter responses from management, those charged with governance and the Monitoring Officer were requested in November but were only received in April which prevented us efficiently closing off some of our audit procedures*;
- Any other matters significant to overseeing the financial reporting process - *None*;
- Related parties - *None*;
- External confirmations - *None*; and
- Consideration of laws and regulations - *No matters other than already contained within this report relating to the Accounts & Audit Regulations 2015 and public inspection period.*



07

Assessment of Control Environment

Assessment of Control Environment

Financial Controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

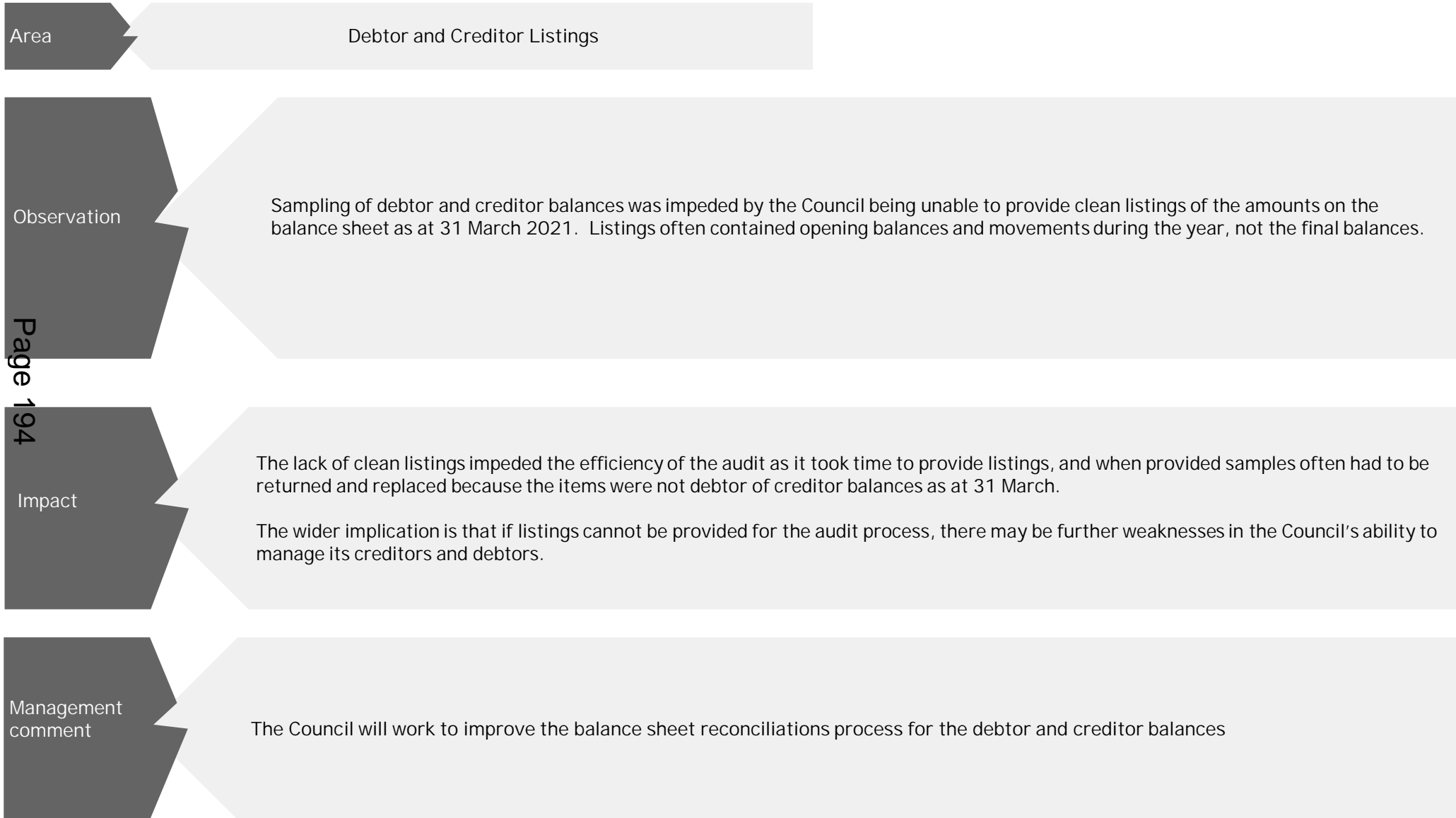
Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We identified two deficiencies that we report to you on the subsequent pages.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

Assessment of Control Environment

Area	Fixed Asset Register
Observation	The Council disposed of land at Brockhampton during the year, but this was not included on the asset register. The rationale provided was that this land had £nil value, and hence didn't require recording.
Impact	As the asset was not included on the asset register, the Council were unable to undertake the appropriate accounting considerations under the Code regarding the financial reporting. It was unable to demonstrate considerations of transfer to Assets Held for Sale when the relevant criteria were met, and the Code's requirement of an immediate valuation and assessment of it's appropriate carrying value until disposal.
Management comment	[The Estates and Asset Management Team are currently ensuring that current resource has been prioritised to get new Property Information System in place. This will ensure there is a complete central list of assets.

Assessment of Control Environment



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08

Independence

Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees that are relevant to the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final fee 2020/21	Planned fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee - Code work	£36,036	£36,036	£36,036
Due for money work - minimum additional fee expectation by PSAA for 2020/21 due to the new Code requirements.	£6,000	-	-
Impact of new accounting requirements of ISA 540 - minimum additional fee expectation by PSAA for 2020/21	£2,500	-	-
Scale fee rebasing (see Note 1)	£43,747	£34,998	£49,796
Other risked based fee variations (see Note 1)	TBC	£26,382	
Total Fees	TBC	£97,416	£57,081

Note 1

- In 2019/20, and within our audit plan, we included a requested amendment to the scale fee in order to meet regulatory and compliance requirements. For 2019/20 we also submitted risk based fee variations to PSAA. PSAA have determined the submission for 2019/20, but did not provide confirmation whether the determination or any element was recurrent. Therefore, we have presented the determined variation as a single line of £49,796.

- For the purposes of this document we have continued to include our fee rebasing from the 'Planned Fee 2020/21' and the final scale fee rebasing figure has been adjusted for PSAA's 25% increase in the scale fee variation fee rates for 20/21. We have also included variations for new Code and ISA requirements, based on the lower end of PSAA's communicated expected ranges. Following the conclusion of the audit we will be in a position to conclude on the risk based variations for the year, including the process to submit to PSAA. We will keep management and the committee updated on the submission process and timescales for both elements.

Other communications

EY Transparency Report 2021

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 end 30 June 2021:





[EY UK 2021 Transparency Report | EY UK](#)



09 Appendices

Required communications with the Audit and Finance Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:







 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit and Finance 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.	Audit planning report – dated November 2021
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Audit planning report – dated November 2021
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 – dated April 2022

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Appendix A

		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 related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Havant Borough Council's ability to continue for the 12 months from the date of our 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 • Material misstatements corrected by management 	Audit results report – dated April 2022
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit and Finance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report – dated April 2022
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Finance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit and Finance Committee responsibility. 	Audit results report – dated April 2022

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <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 – dated April 2022
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Plan – dated November 2021 and Audit results report – dated April 2022
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. 	We have received all expected confirmations.
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit and Finance 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 and Finance Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report – dated April 2022

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report – dated April 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report – dated April 2022
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor’s report Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report – dated April 2022
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Plan – dated November 2021 and Audit results report – dated April 2022

Draft management representation letter

Management Representation Letter

This letter of representations is provided in connection with your audit of the financial statements of Havant Borough Council (“the Council”) for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Havant Borough Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. As at the date of our report, there is two unadjusted audit differences identified during the current audit and pertaining to the latest period presented. These are in relation to:

- £117k capitalised in PPE additions which relates to 2021/22.
- £183k adjustment to increase the Pension asset value.

[Reason for not correcting misstatements to be added]

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council’s activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council’s financial statements;

Draft management representation letter

Management Representation Letter

- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees held through 2020/21 to the most recent meeting of the Audit and Finance Committee held on.....[*to be completed*].
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

6. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

7. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

8. From the date of our last management representation letter at 23 July 2021 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

9. There are no further instances of assets that are owned by the Council but not held on the asset register.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 18 to the financial statements all guarantees that we have given to third parties.

Draft management representation letter

Management Representation Letter

E. Going Concern

1. Note 1 to the financial statements disclose all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than as described in the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings classified as property, plant & equipment, investment property and valuation of pension liabilities and assets, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

Revaluation of land and buildings classified as Property, Plant and Equipment (PPE) and Investment Property (IP)

1. We confirm that the significant judgments made in performing the revaluation of land and buildings classified as PPE and IP have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in performing the revaluation of land and buildings classified as PPE and IP.

3. We confirm that the significant assumptions used in performing the revaluation of land and buildings classified as PPE and IP appropriately reflect our intent and ability to carry out the revaluation on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialized skills or expertise has been applied in undertaking the revaluation of land and buildings classified as PPE and IP.

6. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements, including due to the COVID-19 pandemic.

Pension Liability and Asset Valuation

7. We confirm that the significant judgments made in performing the pension liability and asset valuation have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

8. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in performing the pension liability and asset valuation.

Draft management representation letter

Management Representation Letter

9. We confirm that the significant assumptions used in performing the pension liability and asset valuation appropriately reflect our intent and ability to carry out the revaluation on behalf of the entity.

10. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

11. We confirm that appropriate specialized skills or expertise has been applied in undertaking the pension liability and asset valuation.

12. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements, including due to the COVID-19 pandemic.

Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Chief Financial officer

Councillor Mark Inkster, Chairman of the Audit and Finance Committee

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ED None

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NON EXEMPT

HAVANT BOROUGH COUNCIL

AUDIT AND FINANCE COMMITTEE

27 April 2022

INTERNAL AUDIT CHARTER 2022-23
Deputy Head of the Southern Internal Audit
Partnership

ITEM NO

FOR DECISION

Key Decision: No

1.0 Purpose of Report

- 1.1 The purpose of this paper is to provide the Audit and Finance Committee with the Internal Audit Charter for 2022-23.
- 1.2 The Internal Audit Charter formally defines the internal audit activity's purpose, authority and responsibility in line with the Public Sector Internal Auditing Standards [the Standards].

2.0 Recommendation

- 2.1 That the Audit and Finance Committee approve the Internal Audit Charter for 2022-23, attached as Appendix 1.

3.0 Summary

- 3.1 With effect from 1 April 2013 internal audit services across the public sector have been governed by the Public Sector Internal Audit Standards (the Standards).
- 3.2 Within the Standards there is a requirement for an Internal Audit Charter - a formal document that defines the purpose, authority and responsibility of the internal audit activity. The proposed charter is attached at Appendix 1.
- 3.3 The Internal Audit Charter must be reviewed periodically (as a minimum annually) by the Chief Internal Auditor and presented to 'Senior Management' and 'the Board'. The Board is defined 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. At the Council this shall mean the Audit and Finance Committee'.

4.0 Implications

4.1 Resources:

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consists of 300 audit days and remains fluid throughout the year to meet the changing needs of the Council.

4.2 Legal:

Compliance with the Accounts and Audit (England) Regulations 2015.

4.3 Strategy:

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4 Risks:

The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register.

4.5 Communications:

None directly from this report.

4.6 Customers & Community:

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

4.7 Integrated Impact Assessment (IIA):

n/a.

5.0 Consultation

5.1 The report has been discussed and agreed by the Interim Chief Executive, Deputy S151 Officer and Interim Strategic Finance Lead.

Appendices:

Appendix 1 – Internal Audit Charter 2022-23

Contact Officer: Antony Harvey
Job Title: Deputy Head of the Southern Internal Audit Partnership
Telephone: 07784 265289
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Internal Audit Charter 2022-23

Introduction

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

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

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

Mission and Core Principles

The IPPF 'Mission' aims *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*

The 'Core Principles' underpin delivery of the IPPF mission:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.

Authority

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 adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

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

Purpose

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.

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 Havant Borough Council lies with the authority's Chief Finance Officer (S151 Officer).

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

The Chief Internal Auditor (Deputy Head of the 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 Council this shall mean the Audit and Finance Committee.

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

Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the Chief Finance Officer (S151 Officer) 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 Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the 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 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 and Finance Committee).

Internal audit resources

The Chief Internal Auditor will be professionally qualified (Chartered Member of the Institute of Internal Auditors - CMIIA, Consultative Committee of Accountancy Bodies - 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 Chief Finance Officer (S151 Officer) will provide the Chief Internal Auditor with the resources necessary to fulfil the 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 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 Chief Finance Officer (S151 Officer) accordingly.

Independence and objectivity

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

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

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

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

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

Due professional care

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

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

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

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor in accordance with the 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 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 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 Council assume a Key Stakeholder 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 Southern Internal Audit Partnership. 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.

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

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

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

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

Reporting

Chief Internal Auditor's Annual Report and Opinion

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

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

The annual report will incorporate as a minimum:

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

Senior Management

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

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

The Board

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

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit 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 or 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.

Southern Internal Audit Partnership – Client Portfolio

Strategic Partner:	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 and Ewell Borough Council Reigate and Banstead Borough Council Tandridge District Council Crawley Borough Council Arun District Council Hampshire & Isle of Wight Fire & Rescue Service Office of the Hampshire Police & Crime Commissioner / Hampshire Constabulary Office of the Sussex Police & Crime Commissioner / Sussex Police Force Office of the Surrey Police & Crime Commissioner / Surrey Police Force
External clients:	Waverley Borough Council Hampshire Pension Fund West Sussex Pension Fund New Forest National Park Authority Isle of Wight College Ringwood Town Council Lymington & Pennington Town Council Langstone Harbour Board Chichester Harbour Board

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 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.

NON EXEMPT

HAVANT BOROUGH COUNCIL

AUDIT AND FINANCE COMMITTEE

27 April 2022

INTERNAL AUDIT PLAN 2022-23

Deputy Head the of Southern Internal Audit Partnership

ITEM NO

FOR DECISION

Key Decision: No

1.0 Purpose of Report

1.1 The purpose of this paper is to provide the Audit and Finance Committee with the Internal Audit Plan 2022-23 (Appendix 1) for Havant Borough Council.

1.2 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 Council's objectives are identified, assessed and managed to a defined acceptable level.

2.0 Recommendation

2.1 That the Audit and Finance Committee approve the Internal Audit Plan 2022-23 attached as Appendix 1.

3.0 Summary

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

3.2 To ensure the Internal Audit Plan is aligned to the needs of the Council, the plan has been developed following consultation with the Interim Chief

Executive and management team; a review of key documents including the Corporate Risk Register and updated Corporate Strategy for 2022 to 2025; and our understanding of the organisation and key priorities for 2022-23.

3.3 The Internal Audit Plan will remain fluid and subject to on-going review, and amended in consultation with the relevant officers, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Chief Internal Auditor's continued contact and liaison with those responsible for the governance of the Council.

3.4 The Council's 'internal audit charter' ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion. Significant matters that jeopardise the delivery of the plan, or require changes to the plan will be identified, addressed and reported to the Management Team.

4.0 Implications

4.1 Resources:

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consists of 300 audit days and remains fluid throughout the year to meet the changing needs of the Council.

4.2 Legal:

Compliance with the Accounts and Audit (England) Regulations 2015.

4.3 Strategy:

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4 Risks:

The audit needs assessment follows a risk-based audit approach taking cognisance of the Council's risk register.

4.5 Communications:

None directly from this report.

4.6 Customers & Community:

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

4.7 Integrated Impact Assessment (IIA):
n/a

5.0 Consultation

5.1 The report has been discussed and agreed by the Interim Chief Executive, Deputy S151 Officer and Interim Strategic Finance Lead.

Appendices:

Appendix 1 – Internal Audit Plan 2022-23

Contact Officer: Antony Harvey
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Internal Audit Plan 2022-23

Havant Borough Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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Introduction

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

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

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

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

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

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

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 Strategic 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 Antony Harvey, Deputy Head of the Southern Internal Audit Partnership, supported Mark Norton, Audit Manager.

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 (IIA) completed an external quality assessment of the Southern Internal Audit Partnership. The report concluded:

'The mandatory elements of the International Professional Practices Framework (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.

Council Strategy

Havant Borough Council's updated Corporate Strategy for 2022-2025 states "Our purpose is to enhance the lives of our residents, businesses, and visitors. We will achieve our priorities by concentrating on the below themes:

- An environmentally aware and cleaner borough
- A safe environment, healthier and more active residents
- A thriving local economy
- A revitalised borough with infrastructure that meets our ambitions
- A responsive and commercial council
- A quality home for all"

Developing the internal audit plan and Council risk

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

- Kim Sawyer – Interim Chief Executive
- Matthew Tiller – Deputy S151 Officer
- Malcom Coe – Interim Strategic Finance Lead
- Heads of Service
- Audit and Finance Committee.

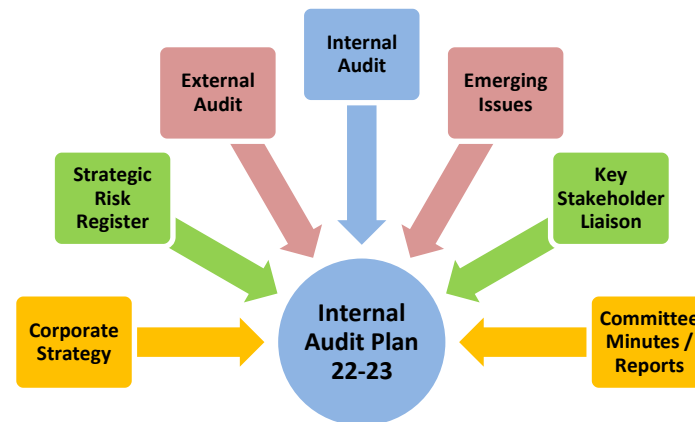
Based on these conversations with key stakeholders, a review of key corporate documents and our understanding of the organisation, the Southern Internal Audit Partnership have developed the audit plan for 2022-23. Following Council's decision to withdraw from the Joint Management / Shared Staff Arrangements with East Hampshire District Council, internal audit activity will initially focus on the

activities to transition from the joint arrangements and on areas of strategic importance such as risk management, governance and financial stability.

During this period of transition and significant change, the audit plan includes provision for consultancy/advisory work and to respond to corresponding emerging issues and risks. In order to provide an annual report and opinion on the framework of internal control, risk management and governance, sufficient assurance work will still be required. The plan therefore includes provision for service specific / operational reviews which will be aligned to the programme to transition from the joint arrangements and will be identified through regular liaison with the senior management team.

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

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 2022-23

Audit Review	Indicative scope	Indicative Timing
Transition Arrangements / Transformation Programme	Allowance of days for the provision of assurance / consultancy work to support the transition from the Joint Management / Shared Staff Arrangements; and Transformation Programme.	Q1-4
Risk Management Arrangements	Assurance over the risk management framework including governance, transparency and maturity – 2022/23 follow-up to review progress since the Limited assurance review in 2021/22.	Q1-2
Financial Stability	Following the ending of the Joint Management Arrangements, assurance over the process to review and update the Council's 2022-23 budget and medium-term financial strategy to ensure the Council achieves a balanced budget and financial stability.	Q3
Asset Management (Corporate Estate)	Review of the arrangements in place to deliver the key objectives within the Asset Management Strategy (including the results of the 2019 CIPFA peer review and corresponding management actions). 2022/23 review to follow-up on progress following initial review in 2021/22.	Q4
Business Continuity / Disaster Recovery	Review corporate and service business continuity / disaster recovery arrangements, ensuring there is resilience, and all plans are complete, current and have been tested so the Council is prepared to respond to emergencies and continue delivering services following a critical event.	Q2-3
Norse South-East Partnership	Review of the arrangements for the Norse South-East Partnership, including the management of assets and performance monitoring arrangements.	Q4
Fraud Framework	Facilitation of the National Fraud Initiative exercise.	On-going
Human Resources	Allowance of days for the provision of assurance work to support the transition from the Joint Management / Shared Staff Arrangements	Q1-2
Accounts Payable	Cyclical coverage of core systems to meet legislative requirements.	Q3-4

Audit Review	Indicative scope	Indicative Timing
Accounts Receivable / Debt Management		Q3-4
Treasury Management		Q2
Benefits (including Council Tax Support Scheme)		Q2
ICT - Data Decoupling	Assurance over the identification and forward planning for data which needs to be decoupled between Havant Borough Council and East Hants District Council to achieve the new management direction of both Authorities.	Q4
ICT	Provision of time for further ICT review(s) aligned to the Council's ICT strategic direction.	Q1-4
Homelessness	Review of the Homelessness Strategy (adopted in 2020/21), progress against the key objectives and how homelessness is managed to reduce costs to the Council.	Q1-2
Service/Operational Reviews	Provision of audit days for Service/Operational reviews – areas to be confirmed through on-going, regular liaison with the Council, aligned to changes to the risk registers; the timing of any restructuring; systems and/or process changes resulting from the ending of the shared staff arrangements.	Q1-4
Certification work	Government Grant Certification work as required.	On-going
Follow-ups	Quarterly review of outstanding audit actions.	On-going
Audit Management	Planning, reporting, monitoring, liaison and advice	On-going
Total days		300

NON EXEMPT

HAVANT BOROUGH COUNCIL

AUDIT AND FINANCE COMMITTEE

27 April 2022

INTERNAL AUDIT PROGRESS REPORT 2021-21 (March 2022)

**Deputy Head of the Southern Internal Audit
Partnership**

ITEM NO

FOR DECISION

Key Decision: No

1.0 Purpose of Report

- 1.1** The purpose of this paper is to provide the Audit and Finance Committee with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

2.0 Recommendation

- 2.1** That the Audit and Finance Committee note the Internal Audit Progress Report, reflecting progress to 25th March 2022, as attached at Appendix 1.

3.0 Summary

- 3.1** Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:
- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
 - undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 3.2** In accordance with the Public Sector Internal Audit Standards and the Council's Internal Audit Charter, the Chief Internal Auditor is required to provide a written status report to Audit and Finance Committee summarising:

'communications on the internal audit activity's performance relative to its plan.'

3.3 Appendix 1 summarises the performance of Internal Audit for 2021-22 to 25th March 2022.

4.0 Implications

4.1 Resources:

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consists of 300 audit days and remains fluid throughout the year to meet the changing needs of the Council.

4.2 Legal:

Compliance with the Accounts and Audit (England) Regulations 2015.

4.3 Strategy:

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4 Risks:

The audit needs assessment follows a risk-based audit approach taking cognisance of the Council's risk register.

4.5 Communications:

None directly from this report.

4.6 Customers & Community:

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

4.7 Integrated Impact Assessment (IIA):

n/a

5.0 Consultation

5.1 The report has been discussed and agreed by the Interim Chief Executive, Deputy S151 Officer and Interim Strategic Finance Lead.

Appendices:

Appendix 1 – Internal Audit Progress Report 2021-22 (March 2022)

Contact Officer: Antony Harvey
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Internal Audit Progress Report 2021-22

March 2022

Havant Borough Council

Havant
BOROUGH COUNCIL

**Southern Internal
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Assurance through excellence
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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:

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

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

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

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

2. Purpose of report

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

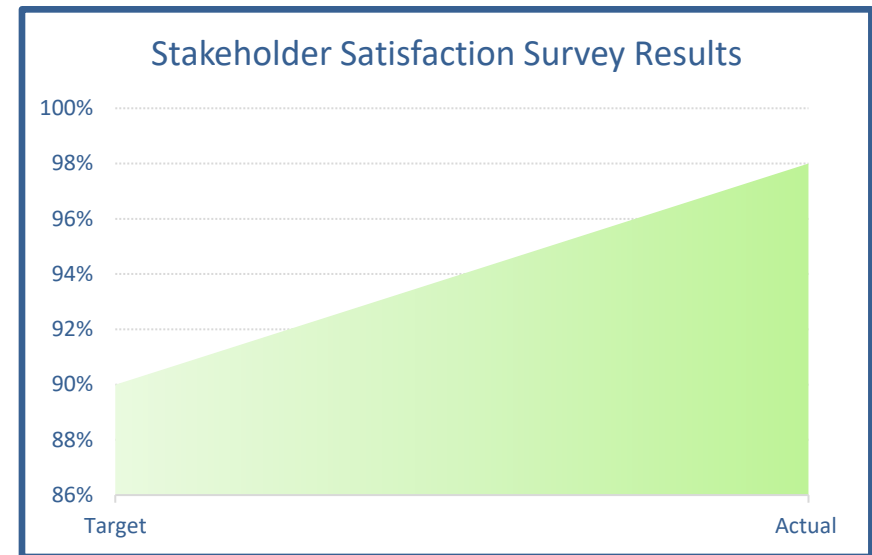
- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

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

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

** Some reports listed within this progress report (pre 2020-21 audit plan) refer to categorisations used by SIAP prior to adoption of the CIPFA standard definitions, reference is provided at Annex 2.*

3. Performance dashboard



Compliance with Public Sector Internal Audit Standards

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

'The mandatory elements of the International Professional Practices Framework (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.'

4. Analysis of 'Live' audit reviews

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)	Not Yet Due	Complete	Overdue		
							L	M	H
Food Safety	Nov 19	HoNS	Limited **	10	0	9	1		
Animal Welfare (Licensing)	May 20	HoNS	Limited **	14	1	13			
IT Asset Management *	Jun 20	HoPRQ	Adequate **	6	0	6			
Licensing	Jun 20	HoNS	Adequate **	6	1	4			1
Information Governance	Jun 20	HoPRQ	Limited **	8	0	7		1	
Norse South East - Governance	Apr 21	HoSC	Reasonable	5	0	3		2	
Lease Income	Jun 21	HoNS	Reasonable	3	1	0			2
Building Control	Jun 21	SD (RP)	Limited	9	0	6			3
Treasury Management *	Sep 21	CFO	Reasonable	1	0	1			
Regeneration *	Oct 21	HoREA	Reasonable	10	0	10			
COVID19 Business Grants *	Nov 21	HoCS	Substantial	3	0	3			
Business Rates	Nov 21	HoCS	Reasonable	3	3	0			
Tree Management	Dec 21	HoNS	Reasonable	5	2	3			
Planning Enforcement	Jan 22	HoNS	Reasonable	4	1	3			
Disabled Facilities Grants	Feb 22	HoNS	Reasonable	14	13	0			1
Main Accounting	Mar 22	CFO	Reasonable	3	3	0			
Risk Management	Mar 22	HoPRQ	Limited	13	13	0			
Total							1	3	7


* Denotes audits where all actions have been completed since the last progress report

** The reports listed (pre 2020-21 audit plan) refer to categorisations used by SIAP prior to the adoption of the CIPFA standard definitions, reference is provided at Annex 2.

NB Internal Audit will work with the relevant officers to review all outstanding actions to ensure they remain appropriate following the Council’s decision to withdraw from the Joint Management / Shared Staff Arrangements with East Hampshire District Council. The outstanding actions will be assessed as to whether they are still appropriate (including responsible officer and intended timescales for implementation), whether alternative actions are required to address the identified risk or where action is no longer required (e.g. if relating harmonising processes across the two Councils).

Audit Sponsor	
Head of Organisational Development	HoOD
Head of Customer Services	HoCS
Chief Finance Officer and Director of Corporate Services	CFO
Head of Programmes, Redesign and Quality	HoPRQ
Head of Development	HoD
Head of Strategic Commissioning	HoSC
Head of Neighbourhood Support	HoNS
Head of Regeneration	HoR
Service Director (Regeneration and Place)	SD (RP)
Head of Commercial Development	HoCD
Head of Housing & Community Engagement	HoHCE

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

Risk Management Arrangements		
Audit Sponsor	Assurance opinion	Management Actions
Head of Programmes, Redesign and Quality	 Limited	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="background-color: green; color: white; padding: 5px; text-align: center;">Low 8</div> <div style="background-color: yellow; color: black; padding: 5px; text-align: center;">Medium 5</div> <div style="background-color: red; color: white; padding: 5px; text-align: center;">High 0</div> </div>

Summary of key observations:-

The responsibility for risk management at a corporate level has been assigned to the Corporate Governance Board, who provide assurance on risk management to the Executive Board. The Risk Management Framework provides guidance and defines the roles and responsibilities of key members of staff, however it has not been reviewed or updated since 2018 and contains out of date information.

A Corporate Risk Register is in place to identify, record, evaluate and prioritise all risks that have been identified with strategic importance in line with the Risk Management Framework. All risks recorded in the Corporate Risk Register are assigned a risk owner who is of sufficient seniority to ensure that the risks are managed appropriately. Controls to manage identified risks are recorded and monitored to ensure they are still operating. Risk owners update the Corporate Risk Register quarterly, and the register is discussed and reviewed by the Corporate Governance Board. Risks scoring above the Councils' risk appetite (currently set at 15) should be reported to Audit and Finance Committee each quarter as part of the Quarterly Performance Report however this has not consistently taken place.

Operational risk registers were provided to audit for six service areas across the Council however no registers were received from the remaining seven service areas therefore we cannot confirm that operational risk registers are in place for half of the Council's service areas. Within the operational risk registers received, we found that some of the identified risks had not been assigned risk owners and the evaluation and scoring of risks was incomplete. Health and Safety risk assessment training has been delivered however there has not been any formal 'business' risk management training relating to staff for some years and discussions identified that there is confusion in some Service areas between business risk registers and Health and Safety risk assessments.

6. Planning & Resourcing

The internal audit plan for 2021-22 was discussed by the Executive Board on 23 February 2021 and approved by the Audit and Finance Committee on 24 March 2021.

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

7. Rolling Work Programme

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
2021-22								
Corporate / Governance Reviews								
Asset Management – Corporate Estate	SD (RP)	✓	✓	✓				
Health & Safety (COVID-19)	HoOD	✓	✓	✓	Sep 21	Sep 21	Substantial	
Risk Management Arrangements	HoPRQ	✓	✓	✓	Nov 21	Mar 22	Limited	
Procurement Arrangements	HoSC	✓	✓	✓	Jan 22			
Contract Management Arrangements	HoSC	✓	✓	✓				
Fraud Framework - National Fraud Initiative (NFI)	CFO	n/a	n/a	✓	n/a	n/a	n/a	On-going
Financial Management								
Income Collection and Banking	CFO	✓	✓	✓	Mar 22			
Accounts Payable	CFO	✓	✓	✓				
Accounts Receivable / Debt Management	CFO	✓	✓	✓	Feb 22			
Business Rates	HoCS	✓	✓	✓	Aug 21	Nov 21	Reasonable	
Main Accounting and Reconciliations	CFO	✓	✓	✓	Jan 22	Mar 22	Reasonable	

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Council Tax	HoCS	✓	✓	✓				
COVID-19 – Business Grants	CFO	✓	✓	✓	Oct 21	Nov 21	Substantial	
Information Technology								
Cyber Attack Response Pathway	HoPRQ	✓	✓	✓	Sep 21			Interim Report
Service Continuity Planning (Loss of IT)	HoPRQ	✓	✓	✓	Dec 21			
IT Device Management	HoPRQ	✓	✓	✓	Nov 21			
Service / Other Reviews								
Regeneration	SD (RP)	✓	✓	✓	Sep 21	Oct 21	Reasonable	
Planning Enforcement	HoNS	✓	✓	✓	Jan 22	Jan 22	Reasonable	
Disabled Facilities Grants	HoNS	✓	✓	✓	Nov 21	Feb 22	Reasonable	
Hampshire Home Choice - Housing Register (Homelessness)	HoHCE	✓	✓	✓	Feb 22			
Planning / Development Management	SD (RP)	✓	✓	✓				
Tree Management	HoNS	✓	✓	✓	Nov 21	Dec 21	Reasonable	
Building Control - Follow-up	SD (RP)	✓	✓	✓				
Licensing (Animal Welfare) - Follow-up	HoNS	✓	✓	✓				
Food Safety – Follow-up	HoNS	✓	✓	✓				

Annex 1 - Adjustments to the plan

Audit reviews added to the plan (included in rolling work programme above)	Comment
Building Control - Follow-up *	Follow-up review for a 20-21 'Limited Assurance' audit
Licensing (Animal Welfare) - Follow-up *	Second follow-up review for a 19-20 'Limited Assurance' audit
Food Safety – Follow-up *	Follow-up review for a 19-20 'Limited Assurance' audit

Audit reviews removed from the plan (excluded from rolling work programme)	Comment
Human Resources **	Defer the review to 2022-23 pending planned changes to the Recruitment, Learning and Development and Performance Management systems and processes in 2022. 2020-21 audits concluded with Payroll - Substantial Assurance; HR/Recruitment – Reasonable Assurance; and Workforce Support – COVID-19 – Substantial Assurance therefore 2021-22 HR audits considered lower risk.
Hosted IT Services ***	Defer review to future years as hosting strategy is dependent upon the Shaping Our Future/Transformation Programme
SharePoint Data Migration ***	Defer review to future years as SharePoint migration is also dependent upon the Shaping Our Future/Transformation Programme
Financial Stability – Budget Monitoring ***	Defer the review so officer resources can be utilised on the proposal to withdraw from the Joint Management and Shared Staff Arrangements
Treasury Management ***	Defer the review so officer resources can be utilised on the proposal to withdraw from the Joint Management and Shared Staff Arrangements

Agreed September 2021 *

Agreed December 2021 **

Proposed April 2022 ***

Annex 2 - Assurance opinions and definitions used by SIAP prior to adoption of the CIPFA standard definitions

As from April 2020 CIPFA guidance recommends a standard set of assurance opinions and supporting definitions for internal audit service providers across the public sector.

To ensure SIAP continue to conform to the best practice principles, the standard definitions were adopted for our 2020-21 work and moving forwards.

There remain some residual reviews detailed within Section 4 of this report that refer to SIAPs former assurance ratings which are detail below.

Substantial	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified
Adequate	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified
Limited	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk
No	Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives.