

Borough Council of
**King's Lynn &
West Norfolk**



RESOURCES AND PERFORMANCE – AUDIT AND RISK COMMITTEE

Tuesday 29 October 2013

**at 6.30 pm or upon the rising of the Rising of the
Resources and Performance Panel meeting, whichever
is the later**

PLEASE NOTE CHANGE OF VENUE

Council Offices
Valentine Road
Hunstanton
Norfolk
PE36 5EF



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Borough Council of
**King's Lynn &
West Norfolk**



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PLEASE NOTE CHANGE OF VENUE

18 October 2013

Dear Member

Resources and Performance – Audit and Risk Committee

You are invited to attend a meeting of the above-mentioned Committee which will be held on **Tuesday 29 October 2013**, at **6.30 pm or upon the rising of the Resources and Performance Panel meeting, whichever is the later** in the **Council Offices, Valentine Road, Hunstanton** to discuss the business shown below.

Yours sincerely

Chief Executive

AGENDA

1. Apologies for absence

To receive any apologies for absence.

2. Minutes

To approve the minutes of the Resources and Performance – Special Audit and Risk Committee meeting held on 9 September 2013 (previously circulated).

3. Declarations of Interest

Please indicate if there are any interests which should be declared. A declaration of an interest should indicate the nature of the interest (if not already declared on the Register of Interests) and the agenda item to which it relates. If a disclosable pecuniary interest is declared, the Member should withdraw from the room whilst the matter is discussed.

These declarations apply to all Members present, whether the Member is part of the meeting, attending to speak as a local Member on an item or simply observing the meeting from the public seating area.

4. Urgent Business Under Standing Order 7

To consider any business which, by reason of special circumstances, the Chairman proposes to accept as urgent under Section 100(b)(4)(b) of the Local Government Act 1972.

5. Members Present Pursuant to Standing Order 34

Members wishing to speak pursuant to Standing Order 34 should inform the Chairman of their intention to do so and on what items they wish to be heard before the meeting commences. Any Member attending the meeting under Standing Order 34 will only be permitted to speak on those items which have been previously notified to the Chairman.

6. Chairman's Correspondence (if any)

7. Matters referred to the Committee from other Council Bodies and responses made to previous Committee recommendations/requests

To receive comments and recommendations from other Council bodies, and any responses subsequent to recommendations, which this Panel has previously made. (N.B. some of the relevant Council bodies may meet after dispatch of the agenda).

At the Special Cabinet meeting held on 16 September 2013 the following responses were made to the recommendations from the Resources and Performance Panel – Special Audit and Risk Committee meeting held 9 September 2013, on the following items:-

- Statement of Accounts 2012/2013 Report to those charged with Governance (SA (UK&I) 260)

RESOLVED: That Cabinet be informed that the Resources and Performance Panel supports the recommendations as set out in the report to Cabinet.

Cabinet Response: “The Panel’s recommendations were duly taken into account when Cabinet considered the item.”

- Cabinet Report: Annual Governance Statement 2012/2013

RESOLVED: That Cabinet be informed that the Resources and Performance Panel supports the recommendations as set out in the report to Cabinet.

Cabinet Response: “The Panel’s recommendations were duly taken into account when Cabinet considered the item.”

8. **Internal Audit Plan 2013/2014 – Progress Report for the Quarter July to September 2013** (pages 1 - 8)

Members are invited to note the report on the Internal Audit work plan for July to September 2013.

9. **Internal Audit Benchmarking Exercise** (pages 9 – 18)

Members are invited to note the report and approve the adoption of a revised timetable for Audit and Risk Committee meetings.

10. **Proposed Audit and Fraud Team** (pages 19 – 36)

The Committee are invited to note the proposal.

11. **Corporate Risk Register** (pages 37 – 45)

The Committee are invited to note the report.

12. **Cabinet Report: Mid Year Review Treasury Report 2013/2014** (pages 46 – 63)

The Committee is invited to consider the report and make any recommendations to Cabinet.

13. **Audit and Risk Committee Work Programme** (pages 64 - 65)

Committee Members are invited to consider the attached Audit and Risk Committee's Work Programme.

14. **Date of Next Meeting**

To note that the next meeting of the Resources and Performance - Audit and Risk Committee will take place on **Tuesday 26 November 2013**.

To: Panel Members – Councillors P Beal (Chairman),
C Manning (Vice-Chairman), D J Collis, J Collop, P Cousins,
I Gourlay, M Hopkins, H Humphrey, M Langwade, J Loveless, A Morrison,
D Tyler, G Wareham, T de Winton and A Wright

Portfolio Holders:

Agenda Items 8, 9, 10, 11 and 12

Councillor N Daubney, Leader and Portfolio Holder for Corporate/Strategic Issues and Resources

**Chief Executive,
Deputy Chief Executive and Executive Director, Finance and Resources
All other Executive Directors, Audit Manager, Press**

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	Portfolio: Performance
Author Name: Kate Littlewood	CONSULTATIONS:
Tel.: 01553 616252	
Email: kate.littlewood@west-norfolk.gov.uk	
OPEN	

Committee: Resources and Performance – Audit & Risk Committee
Date: 29th October 2013
Subject: Internal Audit Plan 2013/14 –progress report for the quarter July to September 2013.

Summary	This report shows the Internal Audit activity for the quarter July to September 2013 against the Strategic Audit Plan 2013/14.
Recommendation	Members are asked to note the report on the Internal Audit workplan for July to September 2013.

1.0 Introduction and Background

- 1.1 The Strategic Audit Plan 2013/14, endorsed by the Audit and Risk Committee on 26th March 2013, sets out the work Internal Audit expect to carry out during the year. This work complies with the requirement under section 4(1) of the Accounts and Audit Regulations 2011 for the Council to ensure it has a sound system of internal control.
- 1.2 Performance Standard 2060 of the Public Sector Internal Audit Standards (PSIAS) requires the Audit Manager to report to the Audit and Risk Committee on the internal audit activity and performance relative to this plan.

2.0 Audit work in the quarter July to September 2013.

- 2.1 On completion of each audit a formal report is issued to the relevant line managers, the Executive Director and Portfolio Holder. Copies are also sent to the Chief Executive, Deputy Chief Executive and the Chief Financial Officer. The report contains an action plan, with target dates, that has been agreed with the managers to address the observations and recommendations raised by Internal Audit. This forms the basis of the follow-up audit, which is carried out approximately six months later to assess progress in implementing the agreed actions.

2.2 *Reports issued during the quarter*

The following audits have been completed during the last quarter and reports issued as described above:

- Health and Safety
- NORA Joint Venture– interim report
- Department of Energy and Climate Change (DECC) Grant Funding
- Recycling Contracts – MRF Duratrust
- Capital Programme (Tuesday Market Place project)
- Revenues and Benefits – OPENRevenues system – Business Process Maps
- Statement of Accounts review
- Enterprise Centre
- Housing Standards follow-up
- Procurement follow-up
- Data Protection and Freedom of Information follow-up
- Environmental Information Regulations follow-up.

A summary of the reports is attached as **Appendix 1** and the full versions are available under the relevant year to members of the Audit & Risk Committee on InSite.

In this quarter the Annual Governance Statement was reviewed to ensure the content was accurate and relevant. No report was issued as findings were raised and dealt with immediately.

2.3 *Work ongoing*

The following audits were ongoing at the end of the quarter and will be reported to the Committee in the next quarterly report:

- **Payroll**
- **Creditors**

The audits shown in bold are core audits.

The following work is also ongoing but the work is longer term and will not necessarily be reported in the next quarter:

- Major Housing Projects (Lynnsport, Marsh Lane and NORA)
- Local Authority Company/ Leisure Trust

The audits of these major projects differ to the usual systems based approach. The aim is to be more proactive in reviewing the development and progress of the projects on an ongoing basis rather than raise issues retrospectively. Work in this quarter has consisted of attending regular project meetings in respect of the Leisure Trust and discussing progress on the Major Housing Projects. Both projects are being well managed and nothing has arisen to concern the Audit Manager in the last quarter. The reporting will depend on the progress of each project, but interim reports may be issued if an appropriate point is reached.

2.4 *Other work carried out in the quarter*

Apart from the standard audits, Internal Audit also undertook other work during the last quarter including the following:

- National Fraud Initiative (NFI) – work has continued on checking the returned matches. This work is almost complete and will be included in the report from the Benefits Investigation Unit in November.
- Work towards creating a combined Audit and Fraud team. A report on this proposal is included in the agenda for this meeting.
- Analysis of the results of the CIPFA Internal Audit Benchmarking exercise. A report summarising the outcome will be presented to the Committee in November, but the full results are on the Internal Audit area of InSite.
- Review of the arrangements for casual typing work.
- Development of an Assurance Map on which to base next year’s strategic plan. An Assurance Map plots areas of inherent risk and considers what assurances are received from different sources that those risks are being managed adequately. The results of this exercise should highlight where the main residual risks are and enable the Audit Manager to prioritise audit need for 2014/15 onwards.

2.5 *Changes to the Strategic Plan*

The work for quarter two included an audit of the Cemeteries and Crematorium. This has been deferred so that it coincides with the project to replace the cremators and associated work.

3.0 Performance Indicators

3.1 Delivery of the Audit Plan – a target of 95% has been set to take in to account any work that may overlap at year end and also to allow for any additional work that may arise during the year. The table below summarises the position against the planned audits contained in the Audit Plan 2013/14.

2013/14 Status of Audits	Audit days used	Percentage of Plan (in days)
Completed and reported	123	29%
In Progress	51	12%
Removed from plan	20	5%
Planned for future quarters	225	54%
Total Planned Audits	419	100%

The 20 days showing as ‘Removed from Plan’ relate to the Shared Services audits that were reported in the last quarterly report as no longer required.

3.2 Audit Questionnaires returned with satisfactory scores – Satisfaction questionnaires are issued with the final report to the Executive Director for completion and return to the Audit Manager. Five questionnaires were issued in this quarter and at the time of writing the report only one had been returned. This one had satisfactory scores. Reminders will be sent for the outstanding questionnaires.

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3.3 Planned audit time – a target of 68% has been set for the full year and for this quarter it has been 75%. This refers to the proportion of the total available time that is spent on planned audit work rather than management, training, general administration and holidays.

4.0 Work planned for the next quarter October to December 2013.

4.1 As well as completing the ongoing work listed in paragraph 2.3, including the project reviews, the following audits are planned for the next quarter:

Audit Title	Days	Date
Treasury and Cashflow	10	Oct
Business Rates Retention Scheme	15	Nov
Council Tax incl CT Support Scheme	20	Nov
General IT Controls incl Networks	20	Nov
Refuse and Recycling	10	Nov
Housing Benefits	12	Dec
Sundry Debtors	18	Dec

4.2 Audits shown in bold are Core Audits. These are audits that are carried out every year due to the significant nature of the systems concerned. They are also ones that the external auditors would be looking at as part of the annual financial audit they perform.

5.0 Conclusion

5.1 Progress to date has been satisfactory and at this point nothing has arisen to suggest that the plan will not be completed within the year. If anything does arise that will impact on the completion of the plan, the Committee will be informed at the next available meeting.

5.2 This report provides Members with an overview of the audit activity and outcomes over the period, and provides an opportunity for Members to seek further information if required.

Notes to support the summary in Appendix 1

The following tables provide an explanation of the terms used to grade the recommendations contained in the final audit reports, and the overall opinion attributed as the result of each audit.

Recommendations

The observations and recommendations are allocated a grading High, Medium or Low as defined below:

High	Major risk requiring action by the time the final report is issued.
Medium	Medium risk requiring action within six months of the issue of the draft report.
Low	Matters of limited risk. Action should be taken as resources permit.

Please note - 'Low' recommendations are not summarised in this report due to the insignificant nature of the issue.

Audit Opinion

At the conclusion of the audit an overall audit opinion is formed for the audit area. The definition for each level of assurance is given below.

Full Assurance	A sound system of internal control that is likely to achieve the system objectives, and which is operating effectively in practice.
Substantial Assurance	A sound system of internal control, but there are a few weaknesses that could put achievement of system objectives at risk.
Limited Assurance	A system of internal control with a number of weaknesses likely to undermine achievement of system objectives, and which is vulnerable to abuse or error.
No Assurance	A fundamentally flawed system of internal control that is unlikely to achieve system objectives and is vulnerable to serious abuse or error.

AGENDA ITEM 8
APPENDIX 1

Audits completed in Q2 2013-14	Overall Opinion
<p><u>Health and Safety</u> Report published in July 2013. There was 1 Medium recommendation referring to the need to monitor the status of the Grounds equipment testing in terms of Noise, Hand and Arm Vibration and Whole Body Vibration.</p>	Substantial Assurance
<p><u>NORA Joint Venture</u> Interim report published in July 2013 There was 1 Medium recommendation on the need for Terms of Reference for the Implementation Board. Further audit work will consider the project management aspects once Phase 1 of the build is underway.</p>	Substantial Assurance
<p><u>Department of Energy and Climate Change (DECC) Grant Funding</u> Report published in July 2013 This was not a standard report. The audit was carried out to establish that grant funding had been used in accordance with the grant's requirements. The report confirmed that this was the case.</p>	Full Assurance
<p><u>Recycling Contracts - MRF Duratrust</u> Report published in August 2013. There were 1 High and 1 Medium recommendations. The High recommendation reminds officers that Contract Standing orders must be adhered to at all times, and the Medium recommendation refers to the need to monitor progress on obtaining finance.</p>	Substantial Assurance
<p><u>Capital Programme (Tuesday Market Place project)</u> Report published in August 2013. Audit work concentrated on allocated funding, Council approval for the scheme and contract procedures. There are no audit comments at this time. At the follow up audit in six months, a review of the project spend will be carried out.</p>	Full Assurance

AGENDA ITEM 8
APPENDIX 1

Audits completed in Q2 2013-14	Overall Opinion
<p><u>Revenues and Benefits – OPENRevenues system – Business Process Maps</u> Report published in September 2013. There were 1 High and 5 Medium recommendations. The High recommendation stated the Auditors commendation to the staff in Revenues and Benefits for their continued work to resolve issues arising from the data conversion and dealing with day-to-day business. The Medium recommendations covered the need to pursue Civica to clear the outstanding help desk and obtain their database schemas to enable staff to write ad hoc reports; improve the management of system access rights; extend the number of automatic running of scheduled tasks; and log all Direct File Updates.</p>	<p>Substantial Assurance</p>
<p><u>Enterprise Centre</u> Report published in September 2013. There were 2 Medium recommendations. One endorsed the use of an Initiative, or Due Diligence, checklist to evaluate potential projects, and the second recommended seeking independent advice regarding State Aid.</p>	<p>Substantial Assurance</p>

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APPENDIX 1

Follow-up audits completed in Q2 2013-14	Original report	Follow-up progress
<p><u>Housing Standards</u> The report issued in October 2012 contained 4 Medium recommendations, of which 3 are progressing well and 1 remains outstanding. At the time of the follow-up there had been change of manager in the section which had delayed progress a little, but the Auditor was confident that all recommendations would be implemented satisfactorily.</p>	October 2012 Substantial Assurance	July 2013 Adequate
<p><u>Procurement</u> The report issued in December 2012 contained 1 Medium recommendation which has been fully implemented.</p>	December 2012 Substantial Assurance	July 2013 Very Good
<p><u>Data Protection and Freedom of Information</u> The report issued in December 2012 contained 3 High, 8 Medium and 3 Low recommendations. The recommendations related mainly to the need to review and update policy documents; improve training and guidance for staff and members; review the Publication Scheme in particular the hyperlinks contained within it and develop a Data Sharing Protocol based on the Code issued by the Information Commissioners Office. The follow-up in July showed very little work had been done to implement the recommendations and after some discussion a new target was set for end August 2013. This has been followed up again and good progress has now been made.</p>	December 2012 Substantial Assurance	July 2013 Poor Sept 2013 Adequate
<p><u>Environmental Information Regulations</u> The report issued in March 2013 highlighted some serious system failings including lack of adherence to time limits, lack of procedures to assess the validity of an Exceptions test, lack of staff and Member awareness training. A further Medium recommendation was made relating to information on the Council's website. The follow-up in July showed that only the Medium recommendation had been implemented. As with DPA and FOI above a further target date was set for the end of August and good progress has now been made.</p>	March 2013 Limited Assurance	July 2013 Poor Sept 2013 Adequate

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	Portfolio: Performance
Author Name: Kate Littlewood	CONSULTATIONS: Dave Thomason Wendy Vincent Kathy Wagg
Tel.: 01553 616252	
Email: kate.littlewood@west-norfolk.gov.uk	
OPEN	

Committee: Resources and Performance – Audit & Risk Committee
Date: 29th October 2013
Subject: Internal Audit Benchmarking Exercise

Summary	The Internal Audit team took part in the Benchmarking exercise undertaken by the Chartered Institute of Public Financial Accountant (CIPFA) earlier this year. This report summarised the results and offers a suggestion for improvement.
Recommendation	To note the report and approve the adoption of a revised timetable for future Audit and Risk Committee meetings.

1.0 Introduction and Background

- 1.1 Each year CIPFA run an Audit Benchmarking Club, which enables participants to compare parameters such as cost, resources, audit coverage and general contextual information.
- 1.2 The club is open to all local authorities on an annual basis. The last time this Council participated was in 2008 and it was felt that it would be a useful exercise this year to gauge how the team is performing in relation to others.
- 1.3 The results of the exercise have been analysed as shown in **Appendix 1**. The full Comparator Report has been placed in the restricted area on InSite for members of the Committee to review in detail if they wish.

2.0 The Process

- 2.1 A detailed questionnaire was distributed to participants in March covering Service Structure, Costs, Chargeable Audit Days, Breakdown of Audit Days, Financial Size of the Authority – Gross Turnover, Staffing, Corporate Governance, Counter-Fraud and Investigations, Context (e.g. outsourcing, reporting lines, external auditors) and Audit IT. The final part consists of text questions regarding such issues as the impact of the recession, changing

responsibilities and emerging risks, to provide some context to the replies. The questions relate to 2012/13 Actual and 2013/14 Planned figures.

- 2.2 The completed questionnaires were returned in May for checking and analysis. In June the list of all participating bodies was issued to select comparators, up to a maximum of 11, for the final report. Considering that being compared to large unitary bodies was unsuitable, the Audit Manager chose all the district councils.
- 2.3 The final Comparator Reports were issued in July with the detailed comparisons. Early in September the Audit Manager attended a Review Meeting at which participants could raise questions with the organisers and discuss issues arising directly with other participants.
- 2.3 The number of district councils taking part was disappointingly low, a fact that was commented on by the organisers at the meeting. Similarly attendance at the meeting was much lower than in previous years from all parties. As a result this has limited the usefulness of the exercise, but nevertheless some conclusions can be drawn.

3.0 The Results

- 3.1 Overall the internal audit provision at this Council is in line with the average in terms of cost, resources and coverage. There are some exceptions but nothing that is unexpected or alarming.
- 3.2 In **Appendix 1** each section of the report has been summarised and comments made on the overall results for that section.
- 3.3 It was noted at the review meeting that the questions relating to the section on Counter Fraud and Investigations were not consistently answered by all and therefore the results are not very informative. This appears to be due to the differing means of dealing with fraud investigation amongst councils. In addition some councils responded in full to the question even if responsibility for fraud did not rest with the Internal Audit team, whereas others in the same position left these questions blank.
- 3.4 The most noticeable divergences from the average relate to the Audit and Risk Committee in terms of number of meetings held and number of members. In both cases these exceed the scale used in the report analysis.
- 3.5 The maximum on the scale in the report for the number of meetings in a year is 9, with the highest shown as 7. This committee held 12 meetings last year, although the Terms of Reference only require a minimum of four.
- 3.6 In terms of membership of the Committee, the report scale ends at 14+, with the highest shown as 9. This Committee has 15 members.

4.0 Suggestion for Improvement

- 4.1 On the whole the results of the Benchmarking exercise indicate that this Council's arrangements are in line with those at other participating councils. However as noted above the number of meetings held by the Audit and Risk Committee exceed the norm. In response to this the Audit Manager is working with Democratic Services to rationalise the proposed meeting's agenda for next year to reduce the number of times the Committee has to sit as the Audit and Risk Committee.
- 4.2 Bearing in mind the requirements to receive some statutory reports by certain dates, a suggested timetable for meetings is attached at **Appendix 2**. It is proposed that six meetings are planned which will accommodate the statutory reports and the progress/ update reports that the Committee currently receives. The timings have also taken into account the needs of Resources and Performance meeting, but arrangements can be adapted if necessary to consider any Cabinet report that falls before the next planned meeting.
- 4.3 These arrangements will still comply with the Audit and Risk Committee's Terms of Reference which require at least four meeting a year.

5.0 Conclusion

- 5.1 The internal audit provision in the Council is in line with that provided at the other District Councils that took part in the exercise. However as noted in paragraph 2.3, the number of participants was quite low and so do not provide as complete a picture as had been hoped.
- 5.2 The results support the effectiveness reviews that were completed earlier this year, of the Audit and Risk Committee and the Internal Audit Service.

Summary of CIPFA Audit Benchmarking Club results 2013

AGENDA ITEM 9 APPENDIX 1

Description	2012/13	2013/14	Comment
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1. Summary data

The first section is a summary only and just covers 2012/13. The results suggest that, per £m turnover, the audit cost is lower than average mainly due to a lower cost per auditor.

2. Cost Analysis

Audit cost per £'m turnover	Below average	Below average	Below average in terms of cost per day and number of days.
Chargeable days per auditor	Average	Average	Leave is slightly lower but all others fairly average, except 'other non-chargeable days' in 2012/13, which relates to admin, management and appraisals. Some participants have entered this time under 'Other' in the breakdown of Audit Days in Section 3
Cost per auditor	Below average – 4 th lowest out of 12	Below average – 4 th lowest out of 12	Lower auditor cost.
Staff cost per auditor £'k	Slightly above average	Slightly above average	In a small team the higher salaries may skew the average cost.
Overhead per auditor £'k	Below average.	Below average.	Includes transport/ travel, other running costs, accommodation, IT and other central charges. Largest overhead is transport, possibly due to lease car costs.

Conclusion

The cost of the service for the turnover of the Council is lower than average. We are producing an average number of chargeable days for a lower than average cost.

Summary of CIPFA Audit Benchmarking Club results 2013

AGENDA ITEM 9 APPENDIX 1

Description	2012/13	2013/14	Comment
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3. Audit Coverage

Fundamental financial systems: -Payroll -Debtors -Creditors -Main a/c's -Cash/bank -Budgetary control -Core integrated systems -Council Tax -NNDR -Procurement -Benefits -Treasury -Others	Below average Much higher Much higher Lower Much higher Lower Much higher N/A None None Higher than average None Lower Much higher	Above average Much higher Much higher Much higher Average Lower Average N/A Much higher Much higher None Average Average Much higher	Council Tax, NNDR and Benefits audits in 2012/13 were cancelled due to system conversion. 'Core Integrated System' is not relevant to this Council. 'Others' at this Council refers to Car Parks and Inventories/Assets. Entries for other participants include general administration and management time, which we entered as non-chargeable work.
Strategic & Operational	Slightly below average	Average	
Corporate Governance: -AGS -Risk Management -Performance management -Information governance -Other	Well below average Average None Below average None None	Well below average Average None None None None	Entries under 'Other' for other participants include reviews of Partnership arrangements; Constitution; Financial Regulations, Code of Corporate Governance, various Health & Safety issues, Business Continuity and Budgetary Control. All these are dealt with at this Council under system and core audits.
IT	Well above average – highest out of 12.	Well above average – highest out of 12.	This has been higher than average as we have an IT auditor here. However this will change from next year on the retirement of the specialist auditor.
Procurement/ commissioning/contracts	None	None	Covered in Fundamental systems above.

Summary of CIPFA Audit Benchmarking Club results 2013**AGENDA ITEM 9 APPENDIX 1**

Description	2012/13	2013/14	Comment
Counter fraud and investigation	Slightly below average.	Average	Fraud review due 2013/14.
Consultancy/ corp support contingency	Below average.	Below average.	Average distorted by 2 high returns.
Grant Certification	None	None	Not all returned figures
Corporate Support	Below average	Below average	Not all returned figures
Other	None	None	Not all returned figures
Contingency	Below average	Below average	Lowest of those that returned figures.

Conclusion

Overall coverage is not too far from the norm. IT stands out as far higher than anywhere else, but this is not surprising as we have an IT audit specialist in the team. This will change from next year on the retirement of the specialist auditor. Risk management audit needs to be arranged for next year. Coverage of the financial systems is in line with all the others. Some councils appear to alternate extent of audits between years, with one year being detailed and the next more light touch, whereas we maintain a more consistent approach but consider different aspects of the subject area each year.

Summary of CIPFA Audit Benchmarking Club results 2013

AGENDA ITEM 9 APPENDIX 1

Description	2012/13
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4. Counter-fraud and Investigations

Total days	Below average
Prevention	Below average
Detection	Above average
Investigation	Above average
% fraud days NFI	Much higher

Conclusion

Only 2012/13 Actuals were covered in this section. Responses from the participating councils were patchy and therefore it is difficult to draw any useful conclusion, except that of the audit sections that took part in the exercise, most do not have a dedicated anti-fraud resource and none have RIPA responsibility or staff with a fraud qualification.

5. Staffing

Salary bandings, with the full time equivalents for this Council, were shown as:

- <£20,000
- £20,000 - £25,000 0.2 FTE below average
- £25,000 - £30,000 0.8 FTE average
- £30,000 - £40,000 0.8 FTE average
- £40,000 - £50,000 1 FTE above average
- £50,000 - £60,000
- £60,000 - £80,000
- >£80,000

Salary profile is roughly in line with the average, although bottom band is lower and top band is higher. However it is expressed as percentage of the total which in a small sample can easily be distorted. The number of part-time staff is above average. The number of fully qualified staff is higher than average, although others have PIIA staff whereas we do not. Again these figures are expressed as a percentage

6. Section Structure

Most of the respondents were not outsourced and there was no view to change this in the next 12 months. Most reported direct to s151 officer or deputy s151 officer. A third had risk management as part of the role.

7. Corporate Governance

Risk maturity in half of the Councils does not appear to have been assessed.

At most councils audit is not involved in preparing the Annual Governance Statement, but does audit it as we do here.

Just under half are involved in preparing the risk register and subsequently do not audit it, again as we do here.

Most have carried out self-assessments on the effectiveness of internal audit in the last 12 months.

All have a specific audit committee. The number of meetings held in by King's Lynn 2012/13 exceeds the scale, which only goes up to 9 and we held 12 meetings. In terms of members of the committee the average is 7.6 and again we exceed the scale which ended at 14+. The next highest had 9 members.

All have an approved plan of 1 year, with most being reviewed quarterly.

AGENDA ITEM 9
APPENDIX 2

Suggested meeting dates for Audit & Risk Committee, based on 6 meetings a year.

Month	Content
February/ March	IA Progress report Q3 IA Strategic Audit Plan
End May	IA Progress report Q4 Benefits investigations report + NFI update Risk Management IA Annual report Effectiveness review – Internal Audit Effectiveness review – A&R
June	Revenue Outturn Capital Programme & Resources Annual Treasury Report
End July	IA Progress report Q1 Business Continuity
September (Accts)	Statement of Accounts Annual Governance Statement
November	Annual Audit Letter – external audit Mid-year Treasury report Benefits investigations report + NFI update IA Progress report Q2 Risk Management

Quarterly:

- IA 1/4ly Progress reports – July/Aug, Oct/Nov, Jan/Feb, April/May

6-monthly:

- Benefits investigations report)Combine with NFI update and say May and November
- NFI update)
- Risk management – May and November

Annual:

- Strategic IA plan March
- Revenue Outturn June
- Capital programme and resources June
- Annual Audit report June
- Effectiveness of IA June
- Effectiveness of A&R June
- Annual treasury report June
- Business Continuity update August
- Statement of Accounts Sept
- AGS Sept
- Mid-year Treasury report October
- Annual audit letter – external audit Nov

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	Portfolio: Performance
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OPEN	

Committee: Resources and Performance – Audit & Risk Committee
Date: 29th October 2013
Subject: Proposed Audit and Fraud Team

Summary Both Internal Audit and the Benefits Enquiry Unit are facing changes in the future and it seems opportune to consider the changing needs of each service and the requirements of the Council. The report looks at reviewing the two teams and combining the units into an Audit and Fraud Team gaining some resource on the audit/fraud activities and reducing the administrative support, providing a saving of £15,061 pa.

Recommendation To note the proposal.

1. Background

1.1 Currently Internal Audit and the Benefits Enquiry Unit (BEU) work separately, with Internal Audit concentrating on providing a planned series of audits throughout the year to provide assurance on internal controls, and BEU investigating benefit fraud.

1.2 Both teams are facing changes in the future and it seems opportune to consider the changing requirements of each:

- BEU will be losing the investigation of housing benefits fraud over time to DWP as the Single Fraud Investigation Service (SFIS) is implemented. This may also take with it staff who have valuable experience and skills in fraud detection. However the Council will retain the investigation into the Council Tax Support Scheme.
- The Senior Auditor in Internal Audit will be leaving the Council early in 2014 and his replacement needs to be considered.
- The Council is investigating innovative methods of providing services with a reduced budget, which may increase the audit universe and require additional or different resources.

- There is growing expectation from Central Government that Councils will have the resources to detect and prevent fraud internally, and to work with other agencies on this aspect where possible.

1.3 This report considers the options available, both separately and as a combined team. In order to understand the options available descriptions of the work of each team and the issues facing them are included below.

1.4 Internal Audit

Currently consists of 2.8 FTE:

Title	Grade	Hours	Mid Point of grade £'s	Mid point pro rata £'s	Pro Rata Mid point + oncosts (23%) £'s
Audit Manager	PG06	37	42,006	42,006	51,667
Senior Auditor	PG08	30	33,021	26,774	32,932
Auditor	PG10	30	26,220	21,259	26,149
Trainee Accountant	PG10	7.4	26,220	5,244	6,450
Total costs					117,198

Nature of the work.

Section 6 of the Accounts and Audit Regulations 2011 state 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*”.

Internal Audit fulfills this role as an independent appraisal function reviewing the internal control system in accordance with an annual strategic plan agreed each year with Management Team and the Audit and Risk Committee. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic and effective use of resources and management of business risks. Regular reports are presented to the Audit and Risk Committee on progress against the strategic plan and the results of completed audits.

The scope of Internal Audit’s remit includes the Council’s entire control environment, including risk management arrangements. This scope encompasses any work undertaken either by a partnership agreement or under contract to the Council.

Internal Audit’s objectives are to:

- Provide an independent and objective internal audit service that helps the Council to meet its stated objectives
- Support the Chief Finance Officer in the discharge of her duties as Section 151 Officer (the officer responsible for the proper administration of the financial affairs of the authority).

- support and assist in embedding corporate governance, effective internal controls and risk management throughout the Council
- help to identify areas for improvement and make recommendations to address these
- offer advice and assurance on achieving effective internal controls
- comply with the Public Sector Internal Audit Standards (PSIAS).

Internal Audit may also provide advice, facilitation or training to assist managers in meeting the objectives of the Council.

Responsibility for the prevention or detection of fraud and corruption is primarily the responsibility of managers. However Internal Auditors should be alert in all their work to risks and exposures that could allow fraud or corruption, and to any indications that fraud or corruption may have been occurring. The prevention and detection of fraud is an area of increasing interest with central government.

The Internal Audit team deals largely with internal matters but may become involved with external issues if, for example, an accusation of corruption arises involving a third party.

In addition the Audit Manager also manages the Risk Register and, after consultation with Management Team, produces regular updates to the Audit and Risk Committee.

Internal Audit was subject to a mini service review in May 2009. As a result savings of £26,780 at the midpoint of grades was achieved by re-grading the Audit Manager post from PG5 to PG6, and reducing the hours of the Senior Auditor and Auditor from 37 to 30. These reduced hours have been retained in the staff lists.

Issues to be addressed

The Senior Auditor has notified the Council of his intention to leave his employment in February 2014. The Council has benefited from his IT specialist skills since 2006, but this has been something that a second tier Council and audit team of this size cannot usually deliver. The opportunity is therefore being taken to review the requirements of the Council going forwards, especially with the changing environment in which it will be operating in future.

The Senior Auditor also acts as deputy to the Audit Manager in her absence.

Central Government is expecting public bodies to take a more proactive approach to fraud prevention and detection, which includes aspects of internal fraud. The Audit Commission report, 'Protecting the Public Purse 2012' illustrates this increasing pressure to combat fraud in a checklist for those responsible for governance contains questions such as:

- Do we have dedicated counter-fraud staff?
- Do counter-fraud staff review all the work of the organisation?
- Do we raise awareness of fraud risks with staff and members?

The full questionnaire is attached as **Appendix 1**.

As a result, Internal Audit will need to develop methods of monitoring potential areas of internal fraud and, if necessary, to become more active in investigating issues arising.

There may also be opportunities to work with other bodies such as registered housing providers to share knowledge and expertise. For example, the Prevention of Social Housing Fraud Act 2013 appears to place the power to prosecute for offences under the Act with the Council, even where the authority is not the landlord. Some other councils currently pursue this type of fraud investigation and BEU already has contacts in the major housing providers in this area.

1.5 Benefits Enquiry Unit (BEU)

Currently consists of 5 FTE:

Title	Grade	Hours	Mid Point of grade £'s	Mid point pro rata £'s	Pro Rata Mid point + oncosts (23%) £'s
Fraud Investigations Manager	PG09	37	29,346	29,346	36,096
Fraud Investigations Officer	PG10	37	26,220	26,220	32,251
Fraud Investigations Officer	PG10	37	26,220	26,220	32,251
Fraud Investigations Officer	PG10	37	26,220	26,220	32,251
Administrative Assistant	PG12	16	17,634	7,626	9,380
Administrative Assistant	PG12	21	17,634	10,008	12,310
Total costs					154,539

Nature of the work

Every Local Authority (LA) has a duty to make reasonable provision for the prevention and detection of fraud and abuse.

Fraud is the intentional distortion of financial statements or other records by persons internal or external to the LA that is carried out to conceal the misappropriation of assets or otherwise for gain. It is the use of deception with the intention of obtaining an advantage, avoiding an obligation, or causing loss to another party.

The administration of the national Housing Benefits scheme by the LA is the biggest single service provided by the LA. In 2012/13 just over £52 million was paid to 14,671 claimants on low incomes to enable them to pay their rent

and Council Tax payments. The LA's Benefit Enquiry Unit has the task of preventing and detecting benefit fraud.

The Unit carries out its work by being visibly active against fraud. This can have a substantial deterrent effect, reducing the risk of fraud and preventing fraud taking place, detecting and stopping fraud, identifying overpayments of Housing Benefit and Council Tax Support and prosecuting and sanctioning offenders.

Regulations have been made under Section 14 of the Local Government Finance Act 1992 (as amended) in exercise of the Council Tax Reduction Schemes (Detection of Fraud & Enforcement) (England) Regulations 2013 to bring in the necessary powers, offences and penalties, to allow LA's to investigate and tackle potential fraudulent Local Council Tax Support Scheme claims. These are similar to the rules in relation to Council Tax Benefit which ended on 31 March 2013.

Costs towards fraud prevention and detection are included within the Grant for the administration of Housing Benefit and previously Council Tax Benefit. The Unit generates income in addition to the government funding through the costs awarded against proven cases and the repayment of the overpayment of benefit. From April 2013, the Grant includes provision for fraud but this is not identified separately.

Investigation of suspected fraud is conducted in accordance with the Police and Criminal Evidence Act 1984 (PACE), the Criminal Procedure and Investigations Act 1996, the Human Rights Act 1988 and the Regulation of Investigatory Powers Act 2000 (RIPA).

The Unit deals largely with reactive referrals from various sources, including members of the public, is pro-active and also works on data matches provided by the Housing Benefit Matching Service and the Audit Commission through the National Fraud Initiative. A Benefit Fraud Hotline is also provided by the Unit, where members of the public can report suspected fraudulent benefit claims anonymously. There is a Benefit Fraud Policy to support the Unit and which sets out the LA's objectives. The Unit will also work with the Department for Work and Pensions (DWP) on appropriate cases where the LA and DWP benefits are both in payment, in order to provide the most effective anti-fraud resource.

The Fraud Investigations Manager reports every six months to the Audit & Risk Committee at the LA of the work undertaken by the Benefit Investigations Unit.

Issues to be addressed

Universal Credit is a new single payment for people who are looking for work or on a low income. It will be introduced in 2013 and rolled out nationally between October 2013 and the end of 2017, and will replace Housing Benefit. As yet there is no date when this will take place in our area. This is the reason for the creation of the Single Fraud Investigation Service (SFIS). SFIS will not however investigate Council Tax Support offences and other LA fraud. Investigation staff may transfer to SFIS.

Current proposals are that SFIS will be rolled out in stages nationally from 2014/15.

Retention of some experienced skilled staff at the LA will be necessary to ensure that Council Tax Support, Council Tax discounts and exemptions and Business Rates fraud can be investigated, as particularly fraudulent claims for reductions now directly affect the Local Authority's income.

Part of the Grant provided to the LA from the DWP is the provision to provide a fraud investigation service, although the exact amount is not specified by the DWP. The proportion of the Grant for the provision of a fraud investigation service for Housing Benefit is due to for review.

1.6 In summary across the two service areas there are three main issues to address:

- Replacement of the Senior Auditor in a way that continues to provide a viable audit team especially as the Council evolves over the forthcoming years.
- Ensure the skills and expertise of BEU remains with the Council when investigations move to the SFIS so that Council Tax and Business Rate frauds can be investigated.
- Develop the capacity to become more proactive in detecting and preventing fraud beyond the current Benefits focus.

2.Options Considered

In this section of the report the options are considered from 'do nothing' to the possibility of alternative ways of working.

2.1 Not replacing the Senior Auditor.

This is not a viable option. The Internal Audit team is already at the minimum working level and to reduce it further would result in significant gaps in the assurance work that feeds in to the Annual Governance Statement. In the past four years the external auditor has commented on the low level of Internal Audit resource but has accepted the existing establishment as being sufficient to meet the Council's requirements to provide assurance. It is also anticipated that the external auditors would need to increase the amount of testing they carry out if internal audit could not produce the required evidence and this in turn would increase their costs.

2.2 Replacement of Senior Auditor at the same level and hours.

It is unlikely that another IT specialist could be recruited. However, this is not seen as a necessity as a more general auditor would provide additional flexibility within a small team. However if more proactive work is to be carried out in investigating fraud, it would be desirable to make the post full time to provide increased resources. Additional training can be arranged to increase the IT audit skills of the remaining auditors.

2.3 Replace the Senior Auditor with a full time Auditor at the same grade as the existing Auditor.

This will increase the number of hours available in the team without increasing the cost and, together with more general experience, will improve flexibility in the team to respond to the changing environment. However this will mean there is no obvious deputy to cover the Audit Manager's absence.

2.4 Benefits Enquiry Unit continues to work as currently.

If BEU continue to concentrate on benefit fraud only as a distinct team, it may be more difficult to retain their expertise and skills in the Council when Housing Benefit fraud transfers to SFIS, under Universal Credit.

The Council will need to maintain the capability to investigate fraud other than Housing Benefit. The trained and skilled staff already present will be required to investigate Council Tax Support, Discounts and Exemptions, and Business Rates Support. All of which directly affect the Council's revenue. Until the transfer to SFIS takes place, there will be an initial increase in the workload of BEU as they continue with their current Housing Benefits fraud work and also pick up investigations into Local Council Tax Support and Business Rates. It would therefore be necessary to prioritise the work undertaken.

Staff in BEU will also be required to look at other areas of fraud prevention and detection along with Internal Audit. As noted earlier, the team have considerable expertise and skills in fraud detection and the use of PACE and RIPA. To replace these skills would incur considerable expense in terms of training and require time to develop.

2.5 Combine the two teams to create an Audit and Fraud Team.

This will create a team with a broader platform to deal with corporate fraud as well as benefit fraud. There are similarities in the general work approach as both need to be independent and objective; rely on accurate documentation; draw evidence-based conclusions from information gathered; and present clear and accurate conclusions. The experience of BEU staff in detecting fraud would also be beneficial in expanding the internal processes for fraud prevention and investigation. Their working knowledge of PACE and RIPA will be required if any frauds are uncovered and evidence needs to be gathered for prosecution.

To increase capacity and produce some efficiency savings, the Senior Auditor should be replaced with a full time Auditor at the lower grade. Internal Audit currently hold a budget to buy in specialist skills such as IT auditors if required. If additional in-house resources were available, this budget could be reduced by £5,000 to fund the increase from 30 hours to 37. When recruiting the job description will include an interest, and some previous experience, in IT auditing as 'Desirable' in order to reduce the need to buy-in specialist skills.

The Fraud Investigations Manager would act as deputy to the Audit Manager for the purposes of staff management and the two teams would work towards covering each other's work, adding more depth and strength to the team.

As the hours were preserved when the Senior Auditor reduced from full time to part time working, the additional hours can be resourced from within the overall staffing complement in resources.

Combined Audit and Fraud Team

Title	Grade	Hours	Mid Point of grade £'s	Mid point pro rata £'s	Pro Rata Mid point + oncosts (23%) £'s	Anticipated Savings
Audit Manager	PG06	37	42,006	42,006	51,667	
Fraud Investigations Manager	PG09	37	29,346	29,346	36,096	
Auditor	PG10	37	26,220	26,220	32,251	681
Auditor	PG10	30	26,220	21,259	26,149	
Trainee Accountant	PG10	7.4	26,220	5,244	6,450	
Fraud Investigations Officer	PG10	37	26,220	26,220	32,251	
Fraud Investigations Officer	PG10	37	26,220	26,220	32,251	
Fraud Investigations Officer	PG10	37	26,220	26,220	32,251	
Administrative Assistant	PG12	16	17,634	7,626		9,380
Administrative Assistant	PG12	21	17,634	10,008	12,310	
<i>Sub Total</i>					261,676	10,061
Reduced IA reserve						5,000
Total Savings						15,061

As part of the review it is intended to delete the PG12 post of 16 hours per week, which is currently by a temporary contract, resulting in a total of 7.6 FTE, a decrease of 0.2 FTE with reduced costs. A diagram of the resulting structure is attached as **Appendix 2**.

Some Councils already operate Audit and Fraud teams successfully and others are following a similar approach to the one suggested here, where BEU are becoming more involved in corporate anti- fraud work.

3. Conclusions

3.1 The way in which the Council delivers its services are changing and will continue to do so for some time. In addition pressures from Central Government to increase our anti-fraud activity continues.

3.2 A closer working relationship and knowledge of each other's skills and approach will enable Internal Audit and BEU to build the resilient and flexible service that will be required to meet the changing demands.

3.3 It is proposed to merge the two teams and realise the identified savings now. When the full implications of the transfer of benefit fraud investigation to SFIS are available, a further review will be carried out to consider the residual workload and staffing requirements, to establish if further savings could be achieved. It is proposed that the second review is dealt with by Management Team.

4.0 Policy Implications

There are no direct policy implications, although it is possible in the future that new areas of work may result in changes to policies, such as working with registered housing providers. If this does arise, the changes will be brought to Cabinet for approval.

5.0 Financial Implications

Savings of £15,061 and an increase in resources.

6.0 Personnel Implications

There are no personnel implications arising. Permanent staff levels will be maintained and the only reporting change will be for the Fraud Investigations Manager who will report to the Audit Manager instead of the Revenues and Benefits Manager. The current temporary contract Administrative Assistant post will not be renewed. Staff consultation has been undertaken and the management responses to points raised are shown in **Appendix 3**.

7.0 Statutory Considerations

The proposal simply changes the way work is carried out to meet the statutory duties placed on BEU, and that require an internal audit function.

8.0 Equality Impact Assessment (EIA)

The Pre-Screening EIA has been completed as attached and there are no issues arising.

9.0 Risk Management Implications

An Audit and Fraud team should be better placed to help manage the risk of fraud.

10.0 Declarations of Interest / Dispensations Granted

None

11.0 Background Papers

'Protecting the Public Purse 2012' – Audit Commission



Pre-Screening Equality Impact Assessment

Name of policy/service/function		Proposed Audit and Fraud Team				
Is this a new or existing policy/ service/function?		Existing				
Brief summary/description of the main aims of the policy/service/function being screened. Please state if this policy/service rigidly constrained by statutory obligations		To provide an integrated, flexible Internal Audit and Fraud Investigation service.				
Question		Answer				
<p>1. Is there any reason to believe that the policy/service/function could have a specific impact on people from one or more of the following groups according to their different protected characteristic, for example, because they have particular needs, experiences, issues or priorities or in terms of ability to access the service?</p> <p>Please tick the relevant box for each group.</p> <p>NB. Equality neutral means no negative impact on any group.</p>			Positive	Negative	Neutral	Unsure
		Age			✓	
		Disability			✓	
		Gender			✓	
		Gender Re-assignment			✓	
		Marriage/civil partnership			✓	
		Pregnancy & maternity			✓	
		Race			✓	
		Religion or belief			✓	
		Sexual orientation			✓	
Other (eg low income)			✓			
Question		Answer	Comments			
2. Is the proposed policy/service likely to affect relations between certain equality communities or to damage relations between the equality communities and the Council, for example because it is seen as favouring a particular community or denying opportunities to another?		No				
3. Could this policy/service be perceived as impacting on communities differently?		No				
4. Is the policy/service specifically designed to tackle evidence of disadvantage or potential discrimination?		No				
5. Are any impacts identified above minor and if so, can these be eliminated or reduced by minor actions? If yes, please agree actions with a member of the Corporate Equalities Working Group and list agreed actions in the comments section		No	<p>Actions:</p> <p>Actions agreed by EWG member:</p>			
Assessment completed by: Name Kate Littlewood						
Job title Audit Manager		Date 19/7/13				

Question	Yes	No	Partial	Comments/ Observations
GENERAL				
1. Do we have a zero tolerance towards fraud?		N		Benefit Enquiry Unit (BEU) use scoring mechanism to prioritise benefit cases to ensure best use of the resources available. Other cases of fraud are dealt with on a case-by-case basis, dependant on the results of any investigation and how strong any 'proof' is.
2. (a) Do we have the right approach, and effective counter-fraud strategies, policies and plans? (b) Have we aligned our strategy with ' <i>Fighting Fraud Locally</i> '? (Acknowledge, Prevent, Pursue).	Y	N		Counter fraud strategies and policies are in place, but to date no review of the effectiveness of them has taken place. A review is to be carried out during 2013/14 to assess the effectiveness of the approach to fraud within the Council. The BEU Fraud Policy and procedures are reviewed regularly and updated as necessary. Until the review has been completed it is difficult to meet the first step of the strategy - of acknowledging the issue.
3. Do we have dedicated counter-fraud staff?			P	BEU are responsible for dealing with Benefit fraud. Other types of fraud are the responsibility of Senior Management and if an investigation is needed, someone is appointed to carry it out and Internal Audit may be requested to assist.
4. Do counter-fraud staff review all the work of our organisation?		N		Limited to Benefit fraud.
5. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?			P	BEU report twice a year to the Audit and Risk Committee on work on Benefit fraud. Other types of fraud are not routinely sought or reported on.
6. Have we assessed our management of counter-fraud work against good practice?			P	BEU carry out assessments of work through use of DWP performance measures and HBRF statistics which produce benchmarking measures back to DWP. The investigations resulting from NFI data matching also produces statistics.
7. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> • New staff (including agency staff) 			P	Induction includes reference to Whistleblowing Policy only. New Benefits, Revenues and CIC staff receive fraud awareness within

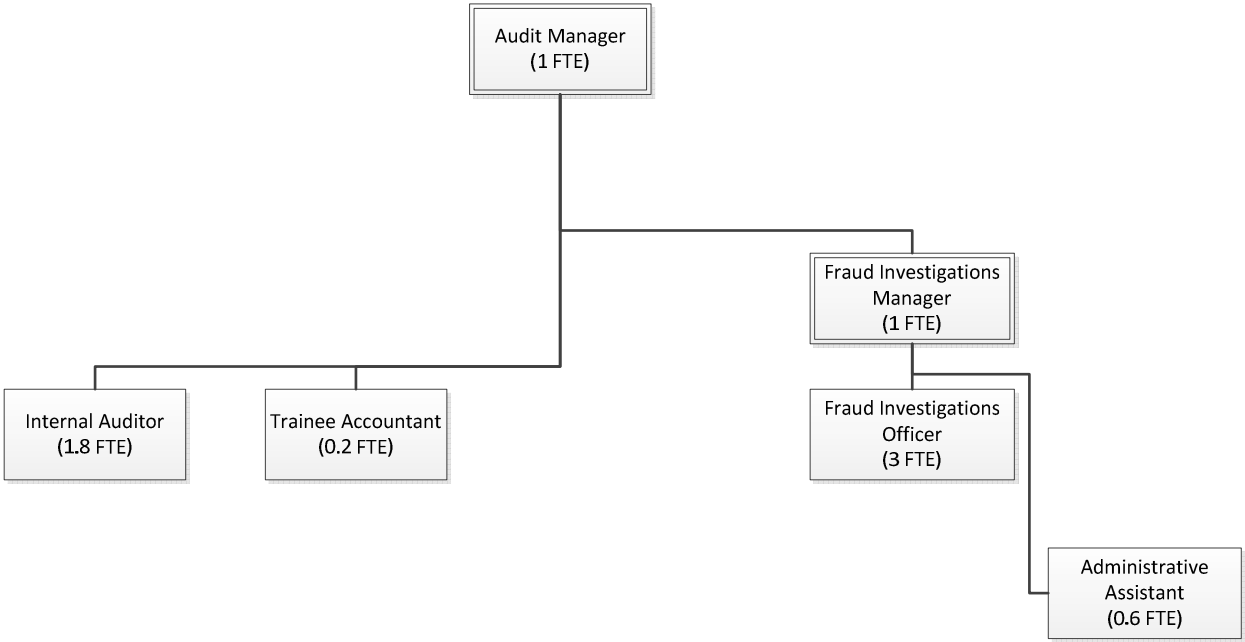
Question	Yes	No	Partial	Comments/ Observations
<ul style="list-style-type: none"> • Existing staff • Elected members • Our contractors? 	Y		P	<p>their initial training.</p> <p>Staff Handbook:</p> <ul style="list-style-type: none"> • Appendix F - 'Fraud – What you as an employee should do'. • Appendix K – 'Whistleblowing Policy'. • Appendix S – 'Anti-Fraud and Anti-Corruption Strategy'. • Appendix Y – 'Fraud Response Procedure'. <p>BEU have sent out briefing notes to all staff and the newsletter produced in Revenues and Benefits includes reports on BEU successful cases .</p> <p>BEU present regular reports to the Audit and Risk Committee to raise awareness of Benefit Fraud.</p> <p>Reports of successful cases by BEU have been included in the Members Bulletin.</p> <p>No training is provided for Members in general on fraud.</p> <p>Included in Contract Standing Orders – App 8 Certificate of Non-Collusion/ Prevention of Corruption, which has to be signed by every tenderer.</p> <p>Reference to fraud offences is contained in the PQQ but the use of this is limited.</p>
<p>8. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?</p>	Y			<p>Current networks regularly used by BEU include:</p> <ul style="list-style-type: none"> • National Anti-Fraud Network (NAFN) • DWP • Local Authority Investigating Officers Group (LAIIOG) • Norfolk Fraud Partnership meetings • Cambridgeshire Fraud Partnership meetings <p>Internal Audit also has access to NAFN and LAIOG.</p> <p>Both services utilize the National Fraud Initiative.</p> <p>Housing Needs also work with police and UK Border Agency in respect of tenancy fraud.</p>
<p>9. Do we work well with other organisations to</p>	Y			<p>As for Q8.</p>

Question	Yes	No	Partial	Comments/ Observations
ensure we effectively share knowledge and data about fraud and fraudsters?				BEU may also receive referrals from Housing Associations or police for investigation.
10. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	Y			The work of the Internal Audit considers internal controls and any identified weaknesses are dealt with as part of the audit recommendations, which includes a target date for corrective action.
11. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?			P	BEU investigate all matches, starting with the High priority ones. Matches relating to Single Person Discount have been largely dealt with through the use of private sector data matching. All other matches are dealt with on an ad hoc basis as time and workload permits. In the past these have rarely shown any significant findings.
12. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?		N		The Treasury Management policy includes a section on Money Laundering, but there is no general strategy or policy.
13. Do we have effective arrangements for: <ul style="list-style-type: none"> • Reporting fraud • Recording fraud • Whistle-blowing? 	Y			<p>General arrangements include:</p> <ul style="list-style-type: none"> • Anti-Fraud and Anti-Corruption Strategy • Whistleblowing Policy • Fraud Response Plan. <p>BEU also have:</p> <ul style="list-style-type: none"> • On-line referrals • Hotline • InCase reporting system • Housing Benefits Recovery and Fraud (HBRF)
14. Do we have effective fidelity insurance arrangements?	Y			Provided through the Council's insurance providers, Zurich Municipal.
FIGHTING FRAUD WITH REDUCED RESOURCES				
15. Have we reassessed our fraud risks since the		N		Fraud review to take place during 2013/14.

Question	Yes	No	Partial	Comments/ Observations
change in the financial climate?				
16. Have we amended our counter-fraud action plan as a result?		N		Dependant on the result of the fraud review.
17. Have we reallocated staff as a result?		N		Dependant on the result of the fraud review.
CURRENT RISKS AND ISSUES				
18. Do we take proper action to ensure that we only allocate social housing to those who are eligible?	Y			Registration onto the Homechoice scheme includes verification of eligibility and Housing Associations also carry out their own checks when a tenancy is taken up.
19. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?		N		Has been regarded solely as the responsibility of the landlord, but may change to some extent in view of the Prevention of Social Housing Fraud Act 2013.
20. Are we satisfied our procurement controls are working as intended?	Y			Annual core audit of the Creditors' system includes a review of procurement controls. The general review of fraud will include procurement fraud.
21. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels, and compared them with best practice?	Y			Annual core audit of the Creditors' system includes a review of procurement controls. Procurement is subject to a dedicated audit on a 3-yearly cycle.
22. Are we satisfied our recruitment procedures: <ul style="list-style-type: none"> • Prevent us employing people working under false identities • Confirm employment references effectively • Ensure applicants are eligible to work in the UK • Require agencies supplying us with staff to undertake the checks that we require? 	Y			Annual core audit of Payroll and the 3-year cyclical audit of Personnel systems review recruitment and appointment procedures.

Question	Yes	No	Partial	Comments/ Observations
23. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?				Not applicable
24. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?				Not applicable
25. Do we take proper action to ensure that we only award Council Tax discounts and allowances to those who are eligible?	Y			Criteria are applied to applicants and private sector data matching has been used for SPD in the past.
26. When we tackle housing and council tax benefit fraud do we make full use of: <ul style="list-style-type: none"> • National Fraud Initiative • Department for Work and Pensions • Housing Benefit Matching Service • Internal data matching • Private sector data matching? 	Y			BEU use information from NFI, DWP and HBMS. Internal data matching has previously been carried out by BEU using IDEA to data match internally between the benefits data and Environmental Health data from the Licensing (Lalpac) system. Apart from BEU, IDEA has not been used for fraud detection, but could form part of the fraud review to be carried out in 2013/14. Private sector data matching has been used for SPD in the past.
EMERGING FRAUD RISKS				
27. Do we have appropriate and proportionate defences against emerging fraud risks: <ul style="list-style-type: none"> • Business rates • Right to Buy • Social Fund and Local Welfare Assistance • Local Council Tax Support • Schools 				BEU will pick up business rates and Local Council Tax Support. Right to Buy and Schools are not applicable. Social Welfare Fund and Local Welfare Assistance has gone to County for the first year, but may come back to this Council in the future. Grants will be picked up by Internal Audit as required.

Question	Yes	No	Partial	Comments/ Observations
• Grants?				



Results of Staff Consultation and Management Responses

The staff consultation was commenced with a meeting of most of the staff on 20th August 2013 and all were supplied with a draft copy of the Cabinet report following the meeting. Two members of staff were not available but agreed to be briefed on their return to work. The consultation period ended on 9th September 2013.

Comments and questions were received from two sources, including via the UNISON Branch Secretary and management responses are explained below.

Some of the comments referred to typing errors or suggested amendments to the report to aid clarity. These have been amended where necessary.

Questions were raised on timing of the changes, both for when the teams merge and for future changes as SFIS is introduced. The former is dependent on the timing of Cabinet approval, but assuming this is received in November, the merger should take place in December. The latter is dependent on when SFIS comes into being as mentioned in paragraph 3.3 of the report. Staff will be informed of progress on this as soon as details are received from DWP.

Another main area of concern was future workloads and type of work that staff would be expected to undertake. Workloads will continue to be monitored, as they are now, and if necessary there is some spare capacity in the staffing levels to bring in additional resources on a contract basis if required until SFIS is fully operational. The recent increased workload arising from the system change in Revenues and Benefits was a one-off occurrence.

In terms of the type of work, either audit or fraud investigation or a mixture of both, it is intended that in the long term staff will have the opportunity to extend their skills and qualifications if they wish. Where a skill can be appropriately applied in the other sphere, such as interviewing under caution, then this will be used.

In relation to work expectations, a comment was raised that job descriptions will need to be amended and this will be dealt with through the normal annual appraisal process.

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	Portfolio: Performance
Author Name: Kate Littlewood	CONSULTATIONS: Senior Management Team
Tel.: 01553 616252	
Email: kate.littlewood@west-norfolk.gov.uk	
OPEN	

Committee: Resources and Performance – Audit & Risk Committee
Date: 29th October 2013
Subject: Corporate Risk Monitoring Report October 2013

Summary	This report presents the changes to the Risk Register since the last monitoring report in June 2013 and gives details of the risks falling into the ‘Very High’ category and the associated work to mitigate the effects.
Recommendation	To note the report.

1.0 Introduction and Background

- 1.1 The Committee receives reports on a half-yearly basis on the position of the Corporate Risk Register, with the last one being presented in June 2013.
- 1.2 Each risk on the register is scored in terms of Impact and Likelihood, according to criteria defined within the Corporate Risk Strategy. The definitions are attached for reference in Appendix 2.
- 1.3 The Risk Register is reviewed by the Executive Directors on a 6-monthly basis. Any existing entries on the register are considered for changes to the nature of the risk, progress to be reported and any adjustments to the risk scores. Risks that are no longer relevant are removed and new risks considered in the context of current circumstances are added.
- 1.4 A summary of the changes to the Risk Register since the last monitoring report are detailed in section 2 below. Details of the ‘Very High’ risks are given in Appendix 1 together with a list of the ‘High’ risks.
- 1.5 The full Risk Register, as agreed by Management Team, is placed on InSite, within the Risk Management section on the Corporate Documents tab.

2.0 Changes to the Register

2.1 Apart from updates on progress for various entries, the main changes are listed below. No new risks have been entered onto the register.

2.2 Risk Rating Amendments:

1) 1.1 – Business Continuity (Internal).

The Likelihood has been reduced from 'Possible' to 'Unlikely', reducing the risk score from 12 (High Risk) to 8 (Medium Risk). Business Continuity plans are being well developed and tested and as a result the Council is much better prepared to deal with any incidents effectively.

2) 1.2 – Cost Reduction Programme

The Impact has been reduced from Major to Moderate, reducing the risk score from 12 (High Risk) to 9 (Medium Risk). The risk relates to the effect of the cost reductions on staff. Methods of keeping staff informed and involved in any service reviews or income generating schemes are now well established.

3) 1.7 – Community Relations

The Impact has been reduced from Major to Moderate, reducing the risk score from 12 (High Risk) to 9 (Medium Risk). The initial rating had been set following the riots in some cities in 2011. Since then the atmosphere generally has been calmer and work is ongoing locally to reduce any tensions in neighbourhoods.

4) 1.9 – Incinerator

The Impact has been reduced from Major to Moderate, reducing the risk score from 8 to 6 (both Medium Risk). Now that the enquiry has been held and there have been political changes at County level which have a different view of the scheme, any adverse publicity against this Council on the subject is less likely to have any impact on overall public opinion.

5) 1.10 – Refuse and Recycling contract

The Likelihood has been reduced from Possible to Unlikely, reducing the risk score from 12 (High Risk) to 8 (Medium Risk). The contract has been rolled out and initial issues have been dealt with. The contract will continue to be monitored but it is considered less likely that major issues will arise

2.4 Removed:

1) 5.1 – Benefits reimbursement

The risk was associated with the increased workload arising from the Revenues and Benefits Shared Services project. It referred to the possibility that the number of errors being reported to the DWP would breach the threshold, affecting the Council's subsidy claim. The workload has now returned to normal levels and projections are well within the acceptable limits.

2) 5.8 – Revenues and Benefits Shared Services – working practices

The decision to delay the merger of the two databases presented a risk that differing operational practices would develop which would make it more difficult to bring them together at a later date. However no further action has been taken to progress the planned merger.

These are shown shaded grey on the attached draft copy and will be removed before the register is published.

3.0 Conclusion

The Risk Register continues to be actively monitored by Senior Management on a regular basis.

**CORPORATE RISK MONITORING REPORT
OCTOBER 2013**

Risk name: Capital Receipts	Responsible Director: Resources

Ref	Description	Mitigation	Progress
2.7	Insufficient land and asset sales will be achieved to fund future capital projects due to the state of the market and the reduced land bank of the Council.	Active marketing of property and assets. Investment in new assets.	Marketing of sites on Rightmove Commercial and Council website. Alternative investments in property being investigated.

Risk Score:		
Impact	Major	4
Likelihood	Likely	4
Total score		16
Risk Category		Very High Risk

**CORPORATE RISK MONITORING REPORT
OCTOBER 2013**

Risk name: Financial Plan	Responsible Director: Resources
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Ref	Description	Mitigation	Progress
5.4	Balancing income and expenditure for both Revenue and Capital as set out in the estimates. In addition to the current economic climate, there is currently a significant pressure to reduce the level of public spending , which is likely to continue through to 2020. The current Budget Plan assumes challenging levels of savings in service delivery costs. There is a possibility that assumptions will not be fully met.	<p>A review of the costs and provision of all services will continue with the aim of reducing costs and if necessary reduce services to match income.</p> <p>Budgets will be monitored against estimates on a regular basis.</p>	<p>Current cost reduction plans will 'balance' the budget to 2015/16 despite further reductions in formula grant. However, further cost reductions will be necessary to balance future years.</p> <p>The Budget Plan is monitored on a monthly basis. A full review of the Budget will take place in February 2014 when the cost of services will be updated and grant/ council tax income raised. New savings targets, if necessary, will be set then.</p>

Risk Score:		
Impact	Major	4
Likelihood	Likely	4
Total score		16
Risk Category		Very High Risk

Risks categorized as 'High Risk'

1.4 - Emergency Response

1.11 – Due Diligence

1.12 – Co-op Bank Financial Standing

2.1 – Local Employment

2.5 – Empty retail properties/ Town centre decline

2.8 – Major Housing Developments

3.1 – Loss of ICT server

3.2 – ICT failure of backup.

4.1 – Health and Safety

5.2 – Fraud and Corruption

5.3 – VAT

5.9 – Local Council Tax Scheme model

5.10 – Local Council Tax Scheme equality challenge

**CORPORATE RISK MONITORING REPORT
APRIL 2013**

LIKELIHOOD	5 Almost Certain	(5) (Green)	(10) (Orange)	(15) (Red)	(20) (Red)	(25) (Red)
	4 Likely		(8) (Green)	(12) (Orange)	(16) (Red) 2.7, 5.4	(20) (Red)
	3 Possible		(6) (Green)	(9) (Green) 1.2, 1.6, 1.7, 2.6	(12) (Orange) 1.11, 1.12, 2.1, 2.5, 2.8, 4.1, 5.2, 5.3, 5.9, 5.10	(15) (Red)
	2 Unlikely			(6) (Green) 1.9	(8) (Green) 1.1, 1.5, 1.8, 1.10	(10) (Orange) 1.4, 3.1, 3.2
	1 Rare					(5) (Green)
		1 Insignificant	2 Minor	3 Moderate	4 Major	5 Extreme
		IMPACT				

Risk Category	How the Risk should be managed
Very High Risk (15 – 25) (Red)	Immediate action required. Senior Management must be involved.
High Risk (10 – 12) (Orange)	Senior Management attention needed and management responsibility specified.
Medium Risk (5 – 9) (Green)	Manage by specific monitoring or response procedures
Low Risk (1 – 4) (White)	Manage by routine procedures, unlikely to need specific or significant application of resources.

Likelihood

Score	Definition
1 – Rare	The event may occur only in exceptional circumstances
2 – Unlikely	The event is not expected to occur
3 – Possible	The event might occur at some time
4 – Likely	The event will probably occur in most circumstances
5 – Almost Certain	The event is expected to occur in most circumstances

Impact

Score	Definition
1 – Insignificant	<ul style="list-style-type: none"> • Little disruption to services • No injury • Loss of <£25,000 • Unplanned change in service delivery due to budget overspend <£100,000 • No effect on delivering partnership objective fully • No damage to BCKLWN reputation • No or insignificant environmental damage
2 – Minor	<ul style="list-style-type: none"> • Some disruption to services • Minor injury • Loss of £25,000 - £175,000 • Unplanned change in service delivery due to budget overspend of £100,000 - £500,000 • Little effect on achieving partnership objective • Minimal damage to BCKLWN reputation (minimal coverage in local press) • Minor damage to local environment
3 - Moderate	<ul style="list-style-type: none"> • Significant disruption to services • Violence or threat of serious injury • Loss of £175,000 - £500,000 • Unplanned change in service delivery due to budget overspend of £500,000 - £1m • Partial failure to achieve partnership objective • Significant coverage in local press • Moderate damage to local environment

4 – Major	<ul style="list-style-type: none"> • Loss of services for more than 48 hours but less than 7 days • Extensive or multiple injuries • Loss of £500,000 - £1m • Unplanned change in service delivery due to budget overspend of £1m - £3m • Significant impact on achieving partnership objective and significantly affects BCKLWN corporate objective • Coverage in national press • Major damage to local environment
5 - Extreme	<ul style="list-style-type: none"> • Loss of service for >7 days • Fatality • Loss of >£1m • Unplanned change in service delivery due to budget overspend >£3m • Non delivery of partnership objectives and BCKLWN corporate objective • Extensive coverage in national press and TV • Significant damage to local or national environment • Requires resignation of Chief Executive, Executive Director or Leader of the Council

Open	Would any decisions proposed :			
Any especially affected Wards	(a) Be entirely within Cabinet’s powers to decide YES			
None	(b) Need to be recommendations to Council NO			
	(c) Be partly for recommendations to Council NO and partly within Cabinets powers –			
Lead Member: Nick Daubney E-mail: cldr.nick.daubney@west-norfolk.gov.uk		Other Cabinet Members consulted: None		
		Other Members consulted: None		
Lead Officer: Lorraine Gore E-mail: lorraine.gore@west-norfolk.gov.uk Direct Dial: 01553 616249		Other Officers consulted: David Thomason, Management Team		
Financial Implications YES	Policy/Personnel Implications NO	Statutory Implications (incl S.17) YES	Equal Opportunities Implications NO	Risk Management Implications YES

Date of meeting: 5 November 2013

MID YEAR REVIEW TREASURY REPORT 2013/2014

<p>Summary</p> <p>The Council has formally adopted the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (2011) and remains fully compliant with its requirements.</p> <p>One of the primary requirements of the Code is:</p> <p>Receipt by Council of an annual strategy report (including the annual investment strategy report) for the year ahead, a mid year review report and an annual review report of the previous year.</p> <p>The Mid Year Review Report has been prepared in compliance with CIPFA’s Code of Practice, and covers the following:</p> <ul style="list-style-type: none"> • An economic update for the first six months of 2013/2014 • A review of the Treasury Management Strategy Statement and Annual Investment Strategy 2013/2014 • The Council’s capital expenditure (prudential indicators) • A review of the Council’s investment portfolio for 2013/2014 • A review of the Council’s borrowing strategy for 2013/2014 • A review of any debt rescheduling undertaken during 2013/2014 • A review of compliance with Treasury and Prudential Limits for 2013/2014 <p>Recommendations</p> <p>Cabinet is asked to note the report and the treasury activity.</p> <p>Reason for the Decision</p> <p>The Council must make a Mid Year Review of its Treasury operation, as part of the CIPFA code of Practice.</p>
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1. Background

- 1.1 The Council operates a balanced budget, which broadly means cash raised during the year and the use of reserves and balances will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses and investing, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 As a consequence treasury management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. ”

2. Introduction

- 2.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 as adopted by this Council in April 2013.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For the Council the delegated body is the Audit Committee.

2.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2013/14;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2013/14;
- A review of the Council's borrowing strategy for 2013/14;
- A review of any debt rescheduling undertaken during 2013/14;
- A review of compliance with Treasury and Prudential Limits for 2013/14.

3 Economic update

3.1 Global economy

During 2013/14 economic indicators suggested that the economy is recovering, albeit from a low level. After avoiding recession in the first quarter of 2013, with a 0.3% quarterly expansion the economy grew 0.7% in Quarter 2 (Q2). There have been signs of renewed vigour in household spending in the summer, with a further pick-up in retail sales, mortgages, house prices and new car registrations.

The strengthening in economic growth appears to have supported the labour market, with employment rising at a modest pace and strong enough to reduce the level of unemployment further. Pay growth also rebounded strongly in April, though this was mostly driven by high earners delaying bonuses until after April's cut in the top rate of income tax. Excluding bonuses, earnings rose by just 1.0%, well below the rate of inflation at 2.7% in August, causing continuing pressure on household's disposable income.

The Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more business funding, particularly to small and medium size enterprises. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with mortgage interest rates falling further to new lows. Together with the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks have risen as have house prices, although they are still well down from the boom years, pre 2008.

Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in Q2 started to come down, but only slowly, as Government expenditure cuts took effect and economic growth started to show through in a small increase in tax receipts. The 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan, and monetary policy was unchanged in advance of the new Bank of England Governor, Mark Carney, arriving. Bank Rate remained at 0.5% and quantitative easing also stayed at £375bn. In August, the Monetary Policy Committee (MPC) provided forward guidance that Bank Rate is unlikely to change until unemployment first falls to 7%, which was not expected

until mid 2016. However, 7% is only a point at which the MPC will review Bank Rate, not necessarily take action to change it. The three month to July average rate was 7.7%.

Consumer Price Index (CPI) inflation (MPC target of 2.0%), fell marginally from a peak of 2.9% in June to 2.7% in August. The Bank of England expects inflation to fall back to 2.0% in 2015.

Financial markets sold off sharply following comments from Ben Bernanke (the Federated Reserve Bank chairman) in June that suggested the Federated Reserve Bank (Fed) may 'taper' its asset purchases earlier than anticipated. The resulting rise in US Treasury yields was replicated in the UK. Equity prices fell initially too, as Fed. purchasing of bonds has served to underpin investor moves into equities out of low yielding bonds. However, as the market moves to realign its expectations, bond yields and equities are likely to rise further in expectation of a continuing economic recovery. Increases in payroll figures have shown further improvement, helping to pull the unemployment rate down from a high of 8.1% to 7.3%, and continuing house price rises have helped more households to escape from negative equity. In September, the Fed. surprised financial markets by not starting tapering as it felt the run of economic data in recent months had been too weak to warrant taking early action. Bond yields fell sharply as a result, though it still only remains a matter of time until tapering does start.

Tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a renewed flare-up. Economic survey data improved consistently over the first half of the year, pointing to a return to growth in Q2, so ending six quarters of Eurozone recession.

3.3 Sector's Outlook for the next six months of 2013/14

Economic forecasting remains difficult with so many external influences weighing on the UK. Volatility in bond yields is likely during 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds. Downside risks to UK gilt yields and PWLB rates include:

- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable: the coalition government fell on 29 September 2013.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.

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- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

Upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- Increased investor confidence that sustainable robust world economic growth is firmly expected, together with a reduction or end of Quantitative Easing (QE) operations in the US, causing a further flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- In the longer term - a reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth, causing the ratio of total Government debt to Gross Domestic Product (GDP) to rise to levels that provoke major concern.

The overall balance of risks to economic recovery in the UK is now weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last, and it remains exposed to vulnerabilities in a number of key areas. The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Near-term, there is some residual risk of further QE if there is a dip in strong growth or if the MPC were to decide to take action to combat the market's expectations of an early first increase in Bank Rate. If the MPC does take action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years, such action could cause gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below. The tension in the US over passing a Federal budget for the new financial year starting on 1 October and raising the debt ceiling in mid October could also see bond yields temporarily dip until agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Fed. will cause bond yields to rise.

3.4 **Capita Asset Services (Sector) interest rate forecast**

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
5yr PWLB rate	2.50%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%
10yr PWLB rate	3.70%	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
25yr PWLB rate	4.40%	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%
50yr PWLB rate	4.50%	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.30%

Expectations for the first change in Bank Rate in the UK are now dependent on how to forecast when unemployment is likely to fall to 7%. Financial markets have taken a very contrary view to the MPC and have aggressively raised short term interest rates and gilt yields due to their view that the strength of economic recovery is now so rapid that unemployment will fall much faster than the Bank of England forecasts. They therefore expect the first increase in Bank Rate to be in quarter 4 of 2014. There is much latitude to disagree with this view as the economic downturn since 2008 was remarkable for the way in which unemployment did not rise to anywhere near the extent likely, unlike in previous recessions. This meant that labour was retained, productivity fell and now, as the MPC expects, there is major potential for unemployment to fall only slowly as existing labour levels are worked more intensively and productivity rises back up again. The size of the work force is also expected to increase relatively rapidly and there are many currently self-employed or part time employed workers who are seeking full time employment. Capita Asset Services take the view that the unemployment rate is not likely to come down as quickly as the financial markets are currently expecting and that the MPC view is more realistic. The prospects for any increase in Bank Rate before 2016 are therefore seen as being limited. However, some forecasters are forecasting that even the Bank of England forecast is too optimistic as to when the 7% level will be reached and so do not expect the first increase in Bank Rate until spring 2017.

4 Treasury Management Strategy Statement and Annual Investment Strategy update

4.1 *The Treasury Management Strategy Statement (TMSS) for 2013/2014 was approved by this Council on 5 March 2013. The Council’s Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council’s investment priorities as follows:*

- *Security of capital*
- *Liquidity*

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- 4.2 *The Council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (maximum loan period of 12 months), and only invest with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and credit default swap (CDS) overlay information provided by Sector.*
- 4.3 A breakdown of the Council's investment portfolio is shown in Section 6 and Appendix 1 of this report.
- 4.4 Borrowing rates have been at historically low rates during the first six months of the 2013/14 financial year. Borrowing during the first six months of the year has been in line with the strategy, and there have been no deviations from the strategy.
- 4.5 As outlined in Section 3 above, there is still considerable uncertainty in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 5 March 2013 is still fit for purpose in the current economic climate.

5 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicator for Capital Expenditure

The capital programme approved by Council on 8 January 2013 was updated for rephrasing and amendments as part of the closedown of the accounts 2012/2013. The updated estimates were approved by Council on 17 June 2013 and are shown in Table 1 below. The capital programme 2013/2016 has been revised as reported in the Monthly Monitoring reports.

Table 1

Portfolio	Capital Programme 2013/2014 (Council 17 June 2013)	Expenditure as at 30 September 2013	Revised Capital Programme 2013/2014 (September Monitoring)
	£'000	£'000	£'000
Community & Democracy	1,443	93	1,044
Environmental Imp & Protection	1,223	1,328	1,247
Housing	2,758	624	2,758
Performance & Resources	707	363	1,105
Regeneration	2,674	631	2,666
Safer & Healthy Communities	1,166	11	1,166
Joint Venture - Housing	7,294	2	7,294
Leisure Companies	629	176	498
Total Capital Programme	17,265	3,228	17,778

5.2 Changes to the Financing of the Capital Programme

Table 2 below shows the expected financing arrangements of the capital expenditure detailed above. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need will also be supplemented by maturing temporary debt and other treasury cash flow requirements.

Table 2

Capital Expenditure	Capital Programme 2013/2014 (Council 17 June 2013)	Revised Capital Programme 2013/2014 (September Monitoring)
	£'000	£'000
Total spend	17,265	17,778
Financed by:		
Capital receipts	4,211	4,211
Capital grants	577	577
Capital reserves	2,389	2,902
Total resource	7,177	7,690

Borrowing need	10,088	10,088
Total Financing	17,265	17,778

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

Table 3 shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

The original estimated CFR for 2013/2014 included in the Treasury Management Strategy Statement 2013/2014 was based on an estimated outturn CFR for 2012/2013 of £12.4m, the actual outturn was £13.5m. The revised CFR for 2013/2014 after rephasing from 2012/2013 and revised capital resources, is £18.2m. The 2013/2014 CFR incorporates the impact of borrowing to finance the Housing Joint Venture.

Prudential Indicator – External Debt / the Operational Boundary

Section 3 of the Local Government Act 2003 requires the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. The Limit is in fact two sets of figures:

- the Authorised Limit for External Debt is the maximum borrowing that the Council can incur in a set period further prudential indicator controls the overall level of borrowing. The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements.
- the Operational Boundary for External Debt is a working practice limit that is set slightly lower than the Authorised Limit. In effect the authorised limit includes a degree of contingency in case of circumstances arising that take the limit above the operational limit. It allows business to continue giving time for Council to be advised in case of the need for more permanent changes to the limits.

Table 3

	2013/14 Original Estimate £m	Current Position £m	2013/14 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR	12.9	13.5	18.2
Prudential Indicator – External Debt / the Operational Boundary			
Authorised Limit for external debt	30.0	30.0	25.0
Operational Boundary for external debt	20.0	20.0	20.0
Borrowing	18.2	12.2	25.2

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Deputy Chief Executive reports that no difficulties are envisaged for the current year in complying with this prudential indicator as detailed in Table 4 below.

Table 4

	2013/14 Original Estimate £'000s	Current Position 30 September 2013 £'000s	2013/14 Revised Estimate £'000s
Gross borrowing	18,220	12,200	25,220
Less investments	24,000	30,004	27,000
Net borrowing	(5,780)	(17,804)	(1,780)
CFR (year end position)	12,928	13,555	18,227

- 5.5 The revised 2013/14 borrowing figure takes into account future borrowing in relation to the joint venture project (houses which are to be built on the Nora Site). The cashflow forecast for the project recognises that the amount of borrowing will be dependent upon how quickly the houses will see. If the houses do not sell as forecast, additional short term borrowing will be required to fund the project through 2014/15.

6 Investment Portfolio 2012/2013

- 6.1 In accordance with the Code, it is the Council’s priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council’s risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low.
- 6.2 The Council held £30m of investments as at 30 September 2013 (£27.17m at 31 March 2013) and the investment portfolio yield for the first six months of the year is 0.90% against a benchmark 0.36% (7 day LIBID – London Interbank Bid Rate).
- 6.3 A full list of investments held by the Council as at 30th September 2013, is shown in Appendix 1, and summarised in Table 5 below:

Table 5

Investments	30th September 2013 £	Average Rate of Return %
Bank of Scotland	5,000,000	1.90
Bank of Scotland	2,000,000	1.10
Birmingham City Council	1,900,000	0.52
Natwest	7,000,000	0.80
Nationwide	2,000,000	0.58
Barclays	2,400,000	0.70
Barclays	2,600,000	0.70
Wyre Forest District Council	2,000,000	0.75
Ignis Money Market Fund	3,100,000	0.39
Standard Chartered	2,000,000	0.62
Roydon Parish Council	4,000	1.50
Total	30,004,000	0.90

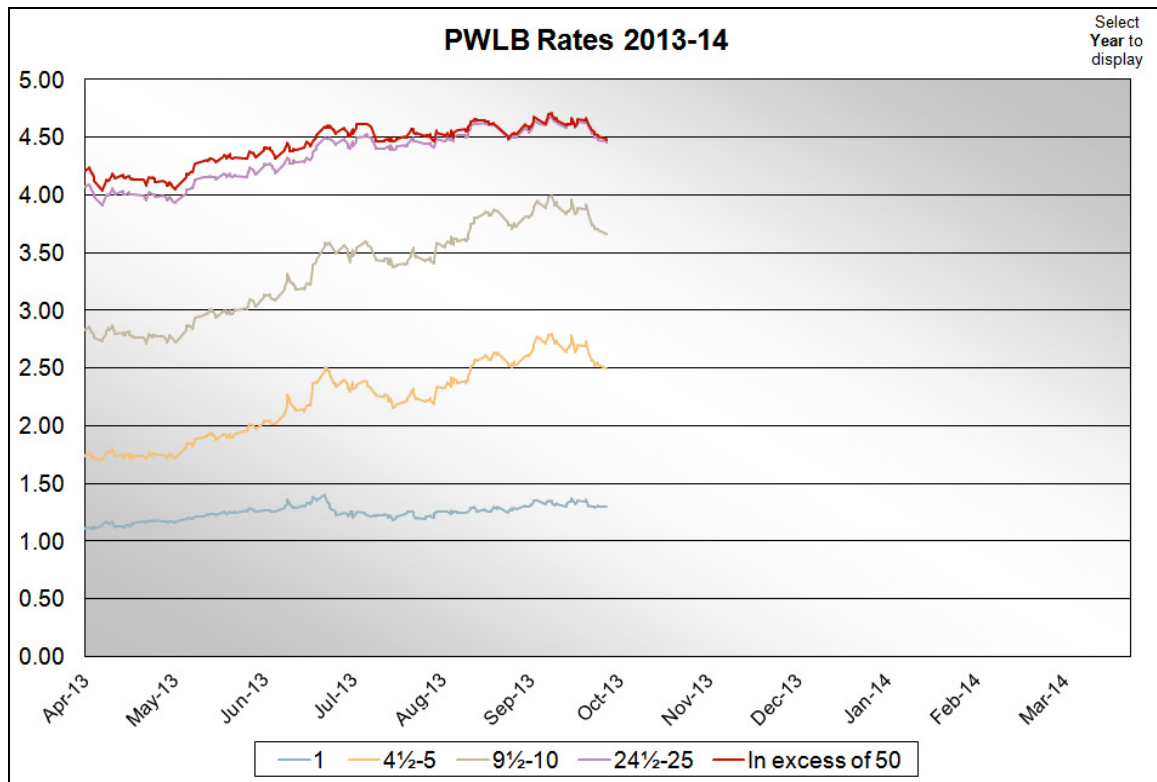
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- 6.4 As illustrated in the economic background section above, investment rates available in the market are at a historical low point. The average level of funds available for investment purposes in the first six months of 2013/14 was £2million (per week). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council holds £25.7million core cash balances for investment purposes.
- 6.5 The Deputy Chief Executive confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2013/14.
- 6.6 The Council's budgeted investment return for 2013/14 is £483,500 and the projected performance for the year is £407,000 which is below budget. The Council's budgeted borrowing costs for 2013/2014 are £519,100 and projected outturn for the year is £481,000. Overall it is anticipated there is net impact of £37,400 on the Council's budget, the capital programme is currently being reviewed and any rephasing will reduce the cost of borrowing in the current year. The cost of borrowing and investment returns are included in the financing adjustment element of the Council's budget, which is monitored and variances reported in the overall Budget Monitoring Report.
- 6.7 Investment Counterparty criteria
- The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement 2013/2014 is meeting the requirement of the treasury management function.

7 External Borrowing 2013/2014

- 7.1 The Council's capital financing requirement (CFR) for 2013/14 is £18.2m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The use of cash flow funds in lieu of borrowing is a prudent and cost effective approach in the current economic climate. A full list of borrowings made by the Council as at 30th September 2013 is shown in Appendix 2.
- 7.2 As outlined below, the general trend has been a reduction in interest rates during the six months, across all maturity bands.
- 7.3 During the first six months of this financial year, less borrowing has been required due to rephasing of the capital programme. It is still anticipated that the Council will have an underlying need to borrow for capital purposes (the capital financing requirement - CFR), if new external borrowing is required this will be undertaken during the second half of this financial year.

7.4 The graph and table below show the movement in PWLB rates for the first six months of the year and provide benchmarking data showing high and low points etc:



8 Debt Rescheduling

8.1 During the first six months of the year, no debt rescheduling was undertaken.

9 Compliance with Treasury and Prudential Limits

9.1 It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. Council’s approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement.

9.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 3.

10. Financial Implications

10.1 The financial implications of the borrowing and investment strategy are reflected in the financing adjustment figure included in the Financial Plan 2013/2017 approved at Cabinet on 5 February 2013 and updated as reported in the Budget Monitoring report.

11. Risk Management Implications

11.1 There are elements of risk in dealing with the treasury management function although the production and monitoring of such controls as prudential indicators and the treasury management strategy help to reduce the exposure of the Council to the market. The costs and returns on borrowing and investment are in themselves a reflection of risk that is seen by the market forces.

12 Policy Implications

12.1 There are no changes in the Treasury Management policy at present.

13 Statutory Considerations

13.1 The Council must set prudential indicators and adopt a Treasury Management Strategy and Annual Investment Strategy.

Access to Information

The Budget 2013/2017 – A Financial Plan
Capital Programme 2012/2016
Treasury Management Strategy and Annual Investment Strategy 2013
Budget Monitoring reports 2013/2014
Sector Monthly Investment Analysis Review
Treasury Monthly Monitoring reports

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Appendix 1

Investment Portfolio as at 30 September 2013

Institution	Principal	Start Date	End Date	Rate %	Ratings
Bank of Scotland	2,000,000	22/11/2012	22/11/2013	1.90	A
Bank of Scotland	3,000,000	26/11/2012	26/11/2013	1.90	A
Bank of Scotland	2,000,000	11/04/2013	11/04/2014	1.10	A
Barclays	2,400,000	12/11/2012		0.70	A
Barclays	2,600,000	20/12/2012		0.70	A
Birmingham City Council	1,900,000	28/01/2013	27/01/2014	0.52	AAA
Wyre Forest District Council	2,000,000	14/01/2013	14/07/2014	0.75	AAA
Natwest – 95 day notice	1,500,000	11/04/2013		0.80	A
Natwest – 95 day notice	3,000,000	22/05/2013		0.80	A
Natwest – 95 day notice	2,500,000	21/08/2013		0.80	A
Standard Chartered	2,000,000	21/01/2013	20/01/2014	0.62	AA-
Ignis Money Market Fund	3,100,000	30/08/2013		0.39	AAA
Nationwide	2,000,000	20/06/2013	20/03/2014	0.58	A
Roydon Parish Council	4,000	19/02/2013	01/04/2016	1.50	AAA
Total	30,004,000				

Appendix 2

Borrowing Portfolio as at 30 September 2013

Institution	Principal	Start Date	End Date	Rate
London Borough of Ealing	1,000,000	17/04/2013	17/02/2014	0.40%
Barclays	5,000,000	22/03/2007	21/03/2077	3.81%
Barclays	5,000,000	12/04/2007	14/04/2077	3.81%
Public Works Loan Board	1,200,000	15/09/2009	14/09/2019	2.92%
Total	12,200,000			

Appendix 3

Revised Prudential and Treasury Indicators

PRUDENTIAL INDICATOR	2013/14 estimate	2014/15 estimate	2015/16 estimate
BUDGET RELATED PRUDENTIAL INDICATORS	£'000	£'000	£'000
Capital Expenditure Approved at Cabinet 17 June 2013	£17,265	£7,940	£2,767
Ratio of financing costs to net revenue stream (Equals net treasury cost ie cost of borrowing less the income from investments divided by the total of Government grant and total council tax). The ratios take into account the announced reduction in grant of 7.25% per year from 2011/2012 as part of the Comprehensive Spending Review.	4.04%	4.24%	3.45%
Increase/(decrease) in Borrowing required each year	5,647	(961)	(750)
Capital Financing Requirement (CFR) as at 31 March this reflects the Council's underlying need to borrow for capital purposes	£18,227	£16,369	£14,753

PRUDENTIAL INDICATOR	2013/14 estimate	2014/15 estimate	2015/16 estimate
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000
Authorised Limit for external debt	30,000	30,000	25,000*
Operational Boundary for external debt	20,000	20,000	20,000

	2013/14	2014/15	2015/16
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	30,000	30,000	25,000
Limits on variable interest rates based on net debt	20,000	20,000	20,000

Maturity Structure of fixed interest rate borrowing		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

*This figure was incorrectly stated in the Annual Treasury Management Strategy report (5.1) as £30,000 and should have been £25,000. This was correctly stated in section 4.4 of the report.

AUDIT AND RISK COMMITTEE WORK PROGRAMME 2013/2014**10 June 2013**

- Final Accounts and Statement of Accounts for year ended 31 March 2013
- Quarterly Progress Final Report 2012/2013
- National Fraud Initiative – Update on Work

25 June 2013

- Internal Audit Annual Report 2012/2013
- Review of the Effectiveness of Internal Audit Service/Internal Audit Terms of Reference Update
- Risk Management

23 July 2013

- Audit and Risk Effectiveness Review
- Benefit Investigations Unit Annual Report

27 August 2013

- 1st Item Annual Governance Statement (Training session 30 minutes to which all Members will be invited to attend)
- Quarterly Progress Update Quarter 1 2013-2014
- Business Continuity – Annual Update

9 September 2013

1st Item – Statement of Accounts – training session – open to all Members 1 hour)

Special Meeting – to consider the Statement of Accounts 2012/2013

Annual Governance Statement

24 September 2013

29 October 2013

- Internal Audit Plan 2013/2014 – Progress report for the quarter July to September 2013
- Internal Audit Benchmarking Exercise
- Proposed Audit and Fraud Team
- Corporate Risk Register

26 November 2013

- Benefit Investigations Unit Half-Year Report – S Munson
- Annual Audit Letter – to be presented by the Council's External Auditor

7 January 2014

(5.30 pm start – Budget Process (1 hour) – 1st item – training session – open to all Members)

27 January 2014

(5.30 start – Business Continuity/Emergency Planning Training (45 mins) – 1st item – training session – open to all Members)

25 February 2014

- Quarterly Progress Report Quarter 3 2013-2014
- Strategic Internal Audit Plan 2014-2015

25 March 2014

- Business Continuity – Annual Update
- BCKL&WN Audit Plan 2014/2015 (external)
- Internal Audit – Strategic Audit Plan 2014/15

29 April 2014

- Corporate Risk Monitoring Report (October 2013 to March 2014)