

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



RESOURCES AND PERFORMANCE – AUDIT AND RISK COMMITTEE

Tuesday 26 June 2012

**Immediately following the Resources and Performance
Panel meeting which commences at 6.00 pm**

Committee Suite
King's Court
Chapel Street
King's Lynn
Norfolk
PE30 1EX



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



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18 June 2012

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 26 June 2012, immediately following the Resources and Performance Panel meeting, in the Committee Suite, King's Court, Chapel Street, King's Lynn**, to discuss the business shown below.

Yours sincerely

Chief Executive

A G E N D A

1. Apologies for absence

To receive any apologies for absence.

2. Minutes

To approve the minutes of the Resources and Performance – Audit and Risk Committee meeting held on Tuesday 29 May 2012 and the Special Meeting of the Audit and Risk Committee held on Thursday 14 June 2012 (previously circulated).

3. Declarations of Interest

Please indicate whether the interest is a personal one only or one which is also prejudicial. A declaration of a personal interest should indicate the nature of the interest and the agenda item to which it relates. In the case of a personal interest, the Member may speak and vote on the matter. If a prejudicial interest is declared, the Member should withdraw from the room whilst the matter is discussed.

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 Committee has previously made. (N.B. some of the relevant Council bodies may meet after dispatch of the agenda).

8. **Health and Safety Internal Audit Report** (pages 1 to 13)

Committee Members are invited to note the attached report.

9. **Internal Audit Annual Report 2011/2012** (pages 14 to 17)

Committee Members are invited to note the attached report.

10. **Review of the Effectiveness of the Internal Audit Service** (pages 18 to 40)

Committee Members are invited to note the contents of the review and the resulting 'Actions Required.'

11. **Review of the Effectiveness of the Audit and Risk Committee**
(pages 41 to 59)

12. **Cabinet Report: Annual Treasury Report 2011/2012** (pages 60 to 77)

13. **Audit and Risk Committee Work Programme** (pages 78 to 79)

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

HEALTH AND SAFETY INTERNAL AUDIT REPORT

March 2012

Contents:

1. Executive Summary
 2. Reporting
 3. Acknowledgements
 4. Detailed Observations, Recommendations and agreed actions etc.
- APP 1 Agreed Terms of Reference

The audit of Health and Safety was carried out by Kate Littlewood and Karen Butler as requested by the Chief Executive. This Executive Summary sets out our overall conclusion on the system reviewed, and summarises the key recommendations arising. A copy of the Terms of Reference for this audit is attached as **Appendix 1**.

The Borough Council of King's Lynn and West Norfolk recognises its duty under the Health and Safety at Work etc. Act 1974 Section 2(3), to have a written statement of general policy with respect to the health, safety and welfare of employees.

The Council's Health, Safety and General Welfare Policy was approved by Cabinet on 5th July 2011 and Council on 28th July 2011, and circulated to staff on the 11th November 2011 by the Safety and Welfare Adviser. This is a comprehensive document covering the Council's policy statement, organisation and responsibilities, and the arrangements for a number of topics (38) including Training, Consultation Procedures, Reporting and Investigation on Accidents and Dangerous Occurrences, First Aid Arrangements, Fire Precautions and Lone Working to name but a few. There are also a number of Codes of Practice covering risks a large number of council employees will be exposed to so council wide codes have been developed to ensure a consistent approach it taken by all.

Corporate Manslaughter and Corporate Homicide Act 2007 came into force in April 2008 and emphasises the importance of the management of health and safety by senior management in compliance with existing health and safety legislation and guidance. In effect compliance with the procedures set out in this policy will form the main defence to any charge brought under the Act.

While the main corporate policy is in place there has been a mixed response to developing and maintaining procedures manuals for individual service areas. The purpose of the procedure manuals is to demonstrate how Executive Directors are complying with their duties under the corporate policy. Some of these have been completed over a full directorate area while others have been developed for individual service areas. Some have been submitted in draft or discussion format but there are service areas where a procedure manual has not been received.

The new Safety and Welfare Adviser has identified that the current process is flawed and there is a need to review the system to establish a simpler method of updating the system. Internal Audit supports this assessment and will resume the audit of the process at the six month follow up audit.

Overall Conclusion

The overall level of assurance attributed to the system is:

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.
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Definitions of the categories allocated to each finding can be found on the reverse of the Terms of Reference in Appendix 1.

R No	Recommendation	Category	Action Plan (Who/When)
4.1	Commission an external specialist to review all Health and Safety documents and procedures.	High	<p>A specification will be written for a full external audit to cover all areas plus specialist audits for known high risk areas This will be followed by a 3-year rolling programme of audits</p> <p>Procurement process in place by End of April 2012.</p> <p>Audits delivered by End of July 2012.</p>
4.2	Review the effectiveness of the Crisys system and investigate corporate-wide alternatives if necessary.	High	<p>There may be retraining issues to deal with regard to the use of Crisys. These will be addressed.</p> <p>The Environmental Health Project Group will be asked to carry out research of other methods on the Safety and Welfare Advisers behalf.</p> <p>Safety and Welfare Adviser. End of April 2012</p>
4.3	Simplify the production of the Directorate plans and map coverage against staff structure charts.	Medium	<p>Identified service managers have been requested again to submit their area specific procedure manuals.</p> <p>Chief Executive 5th April 2012</p> <p>Once the missing manuals have been received a method of producing simpler risk based manuals will be investigated.</p> <p>Safety and Welfare Adviser. End of May 2012</p>
4.4	Incorporate review dates in the Policy and associated documents, and establish a method of monitoring the reviews.	Medium	<p>Review dates will be added to the corporate policy.</p> <p>Health and Safety will be discussed at Management Team meetings and will appear on the agenda quarterly.</p>

			Safety and Welfare Adviser AGENDA ITEM 8 End of April 2012
4.5	Establish a method of confirming that staff have read and understood the Health, Safety and General Welfare Policy when it is re-issued.	Medium	<p>All staff will be required to sign to confirm receipt of any future policy updates.</p> <p>Health and Safety will be covered as part of the induction process followed up with any specific training as identified.</p> <p>The Safety and Welfare Adviser will be invited to attend team meetings to assess the level of training given. Managers will be required to submit attendance details.</p> <p>Chief Executive and Safety and Welfare Adviser. Ongoing commitment.</p>
4.6	Consider using InSite, instead of Ciphernet, for depositing the latest Policy and underlying documents.	Medium	<p>Insite will be used to store health and safety documents. Hard copies will be printed for those without access to a computer.</p> <p>Confirmation will be required on how those who do not have access to a computer received their updates.</p> <p>Safety and Welfare Adviser. Ongoing commitment</p>

2. Reporting

A copy of the report will, in accordance with the Council's requirements to demonstrate sound Corporate Governance principles, be published on Insite and be available to Management Team, Audit and Risk Committee members, the Chief Accountant, the Principal Accountant and the relevant Portfolio Accounting Technician(s).

3. ACKNOWLEDGEMENTS

We would like to express our thanks to Dave Clack.

Subject Area 4.1 External Review

W.P. Ref. TS7.5

Observations and their effects/ Recommendations	Priority	Agreed Action/ Responsible Officer/ Target Date
<p>1. Specialist Review</p> <p>Observation Para 6 of the Introduction to the policy includes the statement <i>'The Management Team will agree an annual external programme to ensure that over a three year period all service areas are audited for compliance with this policy'</i>. This external programme of review has not happened.</p> <p>The last external review was carried out by Connaught and a report issued in October 2008. The audit covered the whole council and action plans were issued to each service. No further work has been carried out since. There are no specialist resources within the Council to carry out a technical audit.</p> <p>Consequence There is an increased risk that practices and procedures within the council may not be up-to-date or fully effective.</p> <p>Recommendation Risks should be prioritised and an initial plan of review should be developed, to ensure the high risk areas are dealt with first. This may cover 3-years as suggested in the policy, or whatever is considered necessary now. After the initial assessment a decision on whether to make this a rolling plan or an intermittent review can be taken.</p>	High	<p>Agreed.</p> <p>A specification will be written for a full external audit to cover all areas plus specialist audits for known high risk areas such as Car Parks, Leisure areas, Public Open Space and Refuse and Recycling. This will be followed by a 3-year rolling programme of audits</p> <p>Procurement process in place by End of April 2012.</p> <p>Audits delivered by End of July 2012.</p> <p>Welfare and Safety Advisor.</p>

Subject Area 4.2 Lone Working

W.P. Ref. TS7.3

Observations and their effects/ Recommendations	Priority	Agreed Action/ Responsible Officer/ Target Date
<p>2. Crisis</p> <p>Observation</p> <p>Currently the Council has a Corporate policy, procedure and system for lone working, Code of Practice No 14. This code lays down the definition of lone working, responsibilities and monitoring. The Crisis Lone Working Monitoring service is a fully automated personnel safety monitoring system that has been provided to help ensure employee safety whilst working alone.</p> <p>During an interview with the Safety and Welfare Adviser it emerged that some service areas state that they are experiencing problems with Crisis and are possibly investigating other systems to use. The Code of Practice 14 states that Crisis must be used as the monitoring system and there are risks associated with not using the prescribed system and not reporting an inefficient system.</p> <p>Consequence</p> <p>There is a risk that an ineffective service could lead to some areas making their own separate arrangements which will lead to inconsistencies across the council.</p> <p>In turn this could leave the council open to criticism if an incident occurs in one area and it becomes apparent that a more effective option was being used by another area.</p> <p>Recommendation</p> <p>Hold a review meeting with current Crisis users to confirm if there any problems and to either resolve the issues or investigate the use of another system.</p> <p>Ensure there is an effective method of reporting any faults with the chosen monitoring service so that they can be investigated and prompt corrective action taken if required.</p>	High	<p>Agreed.</p> <p>There may be retraining issues to deal with regard to the use of Crisis. These will be addressed.</p> <p>The Environmental Health Project Group will be asked to carry out research of other methods on the Safety and Welfare Advisers behalf.</p> <p>Safety and Welfare Adviser.</p> <p>End of April 2012</p>

Observations and their effects/ Recommendations	Priority	Agreed Action/ Responsible Officer/ Target Date
<p>3. Health and Safety Procedures</p> <p>Observation</p> <p>After the Council Health, Safety and General Welfare Policy was approved by Council on 28th July 2011, each service area was required to produce service specific health and safety procedures and submit them to the Safety and Welfare Adviser. A structure chart for each service was also requested. At the time of the audit a limited number of plans and structure charts have been submitted, although some were in the process of still being prepared.</p> <p>There is also some inconsistency in approach between the directorates with some single directorate specific procedure manuals being received while some directorates have devolved this down to the service level. The single directorate specific procedure manuals have been produced by one person who is not necessarily aware of the work of all areas and there may be service risks which are not addressed.</p> <p>Consequence</p> <p>The current method of producing individual procedure manuals is complex and time consuming, leading to cases where they are not completed on time. In some cases the procedure documents are unwieldy documents just repeating what is in the policy.</p> <p>Without structure charts covering all sections within each service it is difficult to confirm that all areas have been covered by a relevant Health & Safety risk assessment. In addition it is difficult to establish clear reporting lines and trace responsibility through the various levels of management.</p> <p>There is a risk that some service specific risks may not be covered.</p>	<p>Medium</p>	<p>Agreed.</p> <p>Identified service managers have been requested again to submit their area specific procedure manuals.</p> <p>Chief Executive 5th April 2012</p> <p>Once the missing manuals have been received a method of producing simpler risk based manuals will be investigated.</p> <p>Safety and Welfare Adviser.</p> <p>End of May 2012</p>

Observations and their effects/ Recommendations	Priority	Agreed Action/ Responsible Officer/ Target Date
<p>Recommendation Establish structure charts for all service areas and map the coverage of each risk assessment against them to ensure there are no gaps or conflicting duplications.</p> <p>Review the process of producing area specific procedure manuals and investigate introducing a simpler risk assessment method.</p>		

Subject Area 4.4 Health and Safety Policy

W.P. Ref. TS7.1

Observations and their effects/ Recommendations	Priority	Agreed Action/ Responsible Officer/ Target Date
<p>4. Policy Review</p> <p>Observation There is no evidence that the Health, Safety and General Welfare Policy is routinely reviewed to ensure that it remains up-to-date and relevant.</p> <p>Consequence Regular reviews at corporate and service level would ensure that the policy and the underlying risk assessments remain relevant and comply with latest approved practice, and reduce the risk that gaps in coverage are appearing.</p> <p>Recommendation A review date should be added to the Corporate Policy and any underlying associated service documents, and a process established to ensure the reviews take place in a timely manner.</p>	Medium	<p>Agreed.</p> <p>Review dates will be added to the corporate policy.</p> <p>Health and Safety will be discussed at Management Team meetings and will appear on the agenda quarterly.</p> <p>Safety and Welfare Adviser.</p> <p>End of April 2012</p>

Observations and their effects/ Recommendations	Priority	Agreed Action/ Responsible Officer/ Target Date
<p>5 Policy Circulation</p> <p>Observation The Health, Safety and General Welfare Policy has been signed by the Chief Executive and was approved by Cabinet on 5th July 2011 and Council on 28th July 2011.</p> <p>The policy was emailed to staff on the 11th November 2011 by the Safety and Welfare Adviser. A statement was included to say that staff that do not have access to email are given access to a copy either by printing or access to a computer. There was no requirement for confirmation for receipt of the Health, Safety and General Welfare Policy. In contrast the Kings Court Fire And Emergency Procedures do have to be acknowledged by all staff and in 2011 in some services this was carried out by use of the email voting button.</p> <p>Consequence While the policy has been circulated there is no evidence it has been read or understood by staff.</p> <p>Recommendation For the next policy circulation establish a method of getting confirmation that the policy has been read and understood by either requiring staff to sign and say they have read the policy or use the email voting button method of obtaining confirmation.</p>	<p>Medium</p>	<p>Agreed.</p> <p>All staff will be required to sign to confirm receipt of any future policy updates.</p> <p>Health and Safety will be covered as part of the induction process followed up with any specific training as identified.</p> <p>The Safety and Welfare Adviser will be invited to attend team meetings to assess the level of training given. Managers will be required to submit attendance details.</p> <p>Chief Executive and Safety and Welfare Adviser.</p> <p>Ongoing commitment.</p>

Subject Area 4.6 Corporate Document Management

W.P. Ref. TS7.4

Observations and their effects/ Recommendations	Priority	Agreed Action/ Responsible Officer/ Target Date
<p>6. Insite Observation The Corporate 'Health, Safety & Welfare General Policy' is currently located on Ciphernet under 'Published Documents' and is not entered on InSite.</p> <p>Whilst it is accepted that it is not ideal to have the document located in more than one place, it is questioned if Ciphernet is the best place.</p> <p>To look at a document in Ciphernet means first having to login to the site. However Insite access is more accessible which means the documents are more readily available.</p> <p>The service specific risk assessments should also be deposited on InSite to enable staff to read/ use them if necessary.</p> <p>Consequence In order to be effective the general policy and specific risk assessments must be used by staff. The documents are less likely to be referred to if they are not readily available.</p> <p>Recommendation Consider establishing an area on Insite that can be used to store the Council Health, Safety and Welfare Policy and the Codes of Practice to enable ease of access.</p> <p>The service specific risk assessments should also be deposited on InSite to enable staff to read/ use them if necessary.</p>	Medium	<p>Agreed.</p> <p>Insite will be used to store health and safety documents. Hard copies will be printed for those without access to a computer.</p> <p>Confirmation will be required on how those who do not have access to a computer received their updates.</p> <p>Safety and Welfare Adviser.</p> <p>Ongoing commitment.</p>

HEALTH AND SAFETY	Borough Council of King's Lynn & West Norfolk 
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TERMS OF REFERENCE

- Responsible Officer:** Dave Clack, Safety and Welfare Adviser.
- Executive Director:** Debbie Gates, Executive Director, Central Services.
- Portfolio Holder:** Cllr Long, Environment and Community Portfolio
- Auditor(s):** Kate Littlewood and Karen Butler
- Budgeted time:** 12th March for 10 Audit Days.

Audit Objectives & Scope

1. To establish:
 - Accountability arrangements – whether there are clear lines of accountability for health and safety throughout the organisation.
 - What corporate systems are in place to ensure compliance with current Health & Safety legislation
 - The completeness of risk assessments and plans at appropriate levels throughout the Council, to ensure all areas are adequately covered.
 - Arrangements for monitoring the effectiveness for the Health and Safety Policy
 - Arrangements for reporting incidents and collating data corporately.
 - Arrangements for applicable training.

Reporting

At the end of the audit testing, a meeting will be held with relevant staff and managers to discuss the results and proposed recommendations and agree any necessary corrective actions. From this a draft report, including an action plan, will be prepared and sent to the manager for comments before the resultant final report is issued. Circulation of the final report and definitions of the classifications for recommendations and the overall audit opinion are given overleaf.

A summary of the final report will be included in the next quarterly report to the Audit and Risk Committee

Debbie Gates, Executive Director, Central Services _____ Date _____

Kate Littlewood, Audit Manager _____ Date _____

Circulation of the Report

The final report will be circulated to:

- Executive Director
- Line manager(s)
- Portfolio Holder
- Chief Executive
- Chief Accountant

A copy will also be placed on InSite, with access restricted to members of the Audit and Risk Committee and Management Team.

Recommendations

The report is completed on an exception basis, with only those areas with control weaknesses reported upon in detail, together with the action plan agreed with management. 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.

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.

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	Portfolio: Corporate/ Strategic Issues & Resources
Author Name: Kate Littlewood	CONSULTATIONS: Deputy Chief Executive
Tel.: 01553 616252	
Email: kate.littlewood@west-norfolk.gcsx.gov.uk	
If not for publication, the paragraph of Schedule 12A of the 1972 Local Government Act considered to justify that is paragraph 3.	

Committee: Resources and Performance – Audit & Risk Committee
Date: 26th June 2012
Subject: Internal Audit Annual Report and Opinion 2011-12

Summary	This report provides Members with an overview of the work undertaken by the Internal Audit Section during the 2011-12 financial year against the Strategic Audit Plan 2011-14, and provides an assurance opinion to support the Annual Governance Statement
Recommendation	To note the report.

1.0 INTRODUCTION AND BACKGROUND

- 1.1 Under the Accounts and Audit (Amendment) Regulations 2011, the Council is required to undertake an annual review of its system of internal control, which in accordance with proper practices has been integrated within the Annual Governance Statement. The work of Internal Audit forms part of the assurance provided to Councillors and Management Team.
- 1.2 The Internal Audit Annual Report states the Audit Manager’s opinion on the system of internal control and the sources of assurance used to form this opinion.
- 1.3 To support the stated opinion, the report describes the work carried out by Internal Audit during 2011-12 and summarises the resulting findings. It also reflects on the performance against the strategic plan and the effectiveness of the internal audit team.

2.0 Audit Manager's Opinion

2.1 This Internal Audit Annual Report provides an independent opinion on the adequacy and effectiveness of the Council's system of financial control, including in particular:

- the key controls operating within and around the core financial systems
- financial management in each Department and corporately
- arrangements for the letting and monitoring of contracts
- controls over information management and security.

2.2 On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However Internal Control systems are only designed to manage risk to a reasonable, and cost effective, level. Subsequently the Audit Manager's opinion can only provide a reasonable, not absolute, level of assurance as to the adequacy and effectiveness of these systems.

2.3 Bearing this in mind, in the Audit Manager's opinion, the Council's control arrangements were adequate and effective in 2011-12, with sound controls in all key areas.

3.0 Sources of Assurance

3.1 The Internal Audit team consists of 2.6 FTE members of staff who are all qualified with the Chartered Institute of Internal Auditors (CIIA). All work is performed according to the requirements in the Accounts and Audit (Amendment) Regulations 2006, and the Code of Standards and Ethics of the CIIA.

3.2 Reports are presented to the Committee at this meeting on:

- Review of the Effectiveness of Internal Audit
- Review of the Effectiveness of the Audit and Risk Committee

These describe the work carried out during the year 2011-12 and demonstrate the role each has to play in supporting Corporate Governance in the Council.

3.3 The Council's external auditors, PWC, have confirmed that they are satisfied with the work carried out by Internal Audit and are willing to place reliance on the results to inform their own work for 2011-12.

4.0 Basis of Assurance

4.1 Each year a Strategic Audit Plan is prepared by the Audit Manager, showing specific audits for the next financial year and proposals for the next two years. This is then presented to the Audit and Risk committee to endorse. The plan for 2011-14 was agreed in this way on 3rd March 2011.

AGENDA ITEM 9

4.2 When setting the Strategic Audit Plan for the year, the Audit Manager has regard for:

- Discussions with the Executive Directors
- Internal Audit's own risk assessment system
- Corporate Risk register
- Comments from the external auditors
- Protocol for Liaison between the internal and external auditors
- Date and result of the previous audit of an area
- Any other reviews relating to specific services.

4.3 The team have completed the Strategic Audit Plan 2011-12. A formal report has been issued for each audit, containing an action plan agreed with the relevant managers to address any control weaknesses identified during the audit. The full audit reports were entered in to a restricted area of InSite for members of the Management Team and the Audit and Risk Committee to view.

4.4 Each report attributes a level of assurance gained for the area being audited as 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.

4.5 During the year the 30 reports have been issued and assessed as:

- 13 - Full Assurance
- 17 - Substantial Assurance
- 0 - Limited Assurance
- 0 - No Assurance

Follow-up reports indicate a good level of implementation with no major concerns raised and I would like to thank all managers for being receptive to our comments and recommendations.

4.6 Quarterly updates on progress against the strategic plan, including summaries of the reports issued, have been presented to the Committee. Amendments to the plan were also included in the progress reports. The report for the final quarter of 2011-12 was presented to the meeting on 24th April 2012.

5.0 Anti-Fraud and Anti-Corruption Procedures

- 5.1 The Council has an Anti-Fraud and Anti-Corruption Strategy and a Whistleblowing Policy in place, which were both approved by Council on 28th January 2010. These are due for review during 2012-13.
- 5.2 Work with the National Fraud Initiative (NFI) has continued in 2011-12, with results of the matching reports arising from the 2010-11 download being investigated by various sections through out the Council as appropriate. To date the Benefits Enquiry Unit remain the most active in this area, with very little arising from the matches in other areas.
- 5.3 Members of the Internal Audit Team are aware of key fraud indicators and are mindful of them during any audit or consultation.
- 5.4 No investigations into irregularities were carried out by Internal Audit during the year.

6.0 Conclusion

- 6.1 The system of internal control is designed to manage risk to a reasonable level, and therefore cannot provide absolute assurance.
- 6.2 Notwithstanding the above, based on the audit work completed during 2011-12, it is the opinion of the Audit Manager that :
- Adequate assurance can be gained in respect of the overall systems of internal control operating within the council.
 - Risk management systems and corporate governance arrangements are satisfactory.

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	Portfolio:
Author Name: Kate Littlewood	CONSULTATIONS: Deputy Chief Executive
Tel.: 01553 616252	
Email: kate.littlewood@west-norfolk.gcsx.gov.uk	
Open	

PR & D Panel: **RESOURCES AND PERFORMANCE PANEL – AUDIT AND RISK COMMITTEE**
Date: **26th June 2012**
Subject: **Review of the Effectiveness of the Internal Audit Service**

Summary	This report provides Committee Members with the results of the Review of the Effectiveness of the Internal Audit Service.
Recommendation	To note the contents of the review and the resulting 'Actions Required'.

1.0 INTRODUCTION AND BACKGROUND

- 1.1 Regulation 4 of the Accounts and Audit Regulations (2003) was amended in 2006 with new reporting requirements on the effectiveness of the system of internal audit. From 2007/08, the new reporting requirements have been included in the Annual Governance Statement (AGS).
- 1.2 The Department for Communities and Local Government (CLG) issued guidance on the amended regulations which requires '*relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body to consider the findings.*'
- 1.3 The guidance also cites the Chartered Institute of Public Finance Accountants (CIPFA) 'Code of Practice for Internal Audit in Local Government in the United Kingdom' (the Code) as proper practice in relation to internal audit in local authorities.

2.0 REVIEW DETAILS

- 2.2 As with previous years, the review is supported by completion of the CIPFA Checklist for Compliance with the Code of Practice for Internal Audit 2006. The completed checklist is attached to this report as **Appendix 1**.

AGENDA ITEM 10

- 2.3 The Internal Audit service has not been subject to external review. However, the external auditors, PWC, have confirmed that having reviewed the files for the core audits, they are happy to rely on the work of the internal audit team.
- 2.4 As reported in the final Quarterly Progress Report for 2011-12, which was presented to this committee on 24th April 2012, the Strategic Audit Plan for 2011-12 was completed satisfactorily.
- 2.5 The Audit Manager's Annual Report, also presented to this meeting, confirms successful completion of the 2011-12 plan with no concerns raised on the system of Internal Control.
- 2.5 The Audit Manager continues to provide quarterly progress reports which reflect on audits completed the quarter, any changes to the plan, additional work performed and performance indicators.

3.0 IMPROVING SERVICE DELIVERY AND ADDING VALUE

- 3.1 As well as providing assurance on the system of Internal Control, the definition of Internal Audit includes reference to 'adding value'. This is demonstrated by members of the Internal Audit team being involved in work other than straightforward auditing. During 2011-12, this included:
- Providing assistance with the work to ensure the Council's compliance with Payment Card Industry – Data Security Standards (PCI-DSS) for accepting credit card payments.
 - Providing an overview of the work to implement the Civica Open Revenues system as part of the Revenues and Benefits Shared Services agreement with North Norfolk District Council. This work continues in to 2012-13.
 - Providing assistance with the introduction of the Paye.net system as part of the cash office closures.
 - The compilation of a comprehensive Retention Policy to replace the basic one that had previously been appended to the Financial regulations. The new policy is a standalone document which takes into account the provisions of the Data Protection Act and Freedom of Information.
 - A review and update of the Council inventories, including detailed listings of items in the Town Hall that were previously unrecorded.
 - A review of Accountancy's work to confirm entries in to the new Asset Register system and agree the figures back to previous years' published accounts prior to PWC carrying out the external audit.
 - Work with Accountancy to review their processes for identifying and valuing Heritage Assets as part of the conversion to IFRS.
- 3.2 In each case the work was well received and proved useful in ensuring that the Councils' systems are based on sound principles.

4.0 WORK WITH EXTERNAL AUDITORS

4.1 The Internal Audit team continued to work with the Council’s external auditors, in accordance with the agreed ‘Protocol for liaison between internal and external auditors 2011-12’ presented to this Committee on 27th September 2011.

4.2 The protocol enables both teams of auditors to co-ordinate their respective work during the year and, by being able to place reliance in the work carried out by the Internal Audit service, the external auditors can reduce the amount of testing required and subsequently the fee level is kept lower. In their ‘External Audit Plan 2011-12’ presented to this Committee on 28th February 2012, PWC confirmed that they were expecting to place reliance on Internal Audit’s work for the forthcoming year.

5.0 Quality and Training

5.1 The Strategic Audit Plan 2011-14 set Performance Indicators for the Internal Audit Service as follows:

Performance Indicator	Target	Achieved	
Delivery of the Audit Plan	95%	85% 14%	Complete Close to completion
Rechargeable time	68%	65%	
Audit Questionnaires returned with satisfactory score	100%	95%	

5.2 As well as attending various internal staff training sessions, members of the Internal Audit have also attended the following technical courses as part of their CPD requirements:

- ‘Open Sources Internet Investigations’ – arranged by the Anglia revenues Partnership
- ‘Internal Audit Treasury Management Training’ – CIPFA
- ‘Networks – a risk and control snapshot’ – Chartered Institute of Internal Auditors (CIIA).

The team have also covered all the Health & Safety training courses offered within the Council so that this aspect can be considered during relevant audits.

5.2 The Audit Manager also attends the Norfolk Chief Internal Group meetings to discuss common issues and share experiences.

5.3 The Audit Manager has been involved in the delivery of training sessions to the Audit and Risk Committee with sessions being presented on:

- The roles of Internal and External Audit
- Risk Assessment.

She continues to make herself available to answer queries from members of the Committee.

6.0 CONCLUSIONS

- 6.1 The Internal Audit team continues to comply with the Code and provides an effective assurance service, as well as adding value to the Council's services.

Note to accompany Appendix 1

Key to the column headings:

- Y = Yes, the requirement is complied with.
- P = Partial, the requirement is partially met and action may be required.
- N = No, the requirement is not complied with and action may be required.

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

1.	Scope of Internal Audit				
1.1	Terms of Reference				
1.1.1	Do Terms of Reference:				
	(a) establish the responsibilities and objectives of Internal Audit?	Y			Sec 6 & 2 respectively
	(b) establish the organisational independence of Internal Audit?	Y			Sec 3
	(c) establish the accountability, reporting lines and relationships between the Audit Manager and: (i) those charged with governance (ii) those parties to whom the Audit Manager may report?	Y Y			Sec 2 in both cases
	(d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?	Y			Sec 2 & 4
	(e) identify Internal Audit's contribution to the review of the effectiveness of the control environment?	Y			Sec 2
	(f) require and enable the Audit Manager to deliver an annual audit opinion?	Y			Sec 6
	(g) define the role of Internal Audit in any fraud related or consultancy work?	Y			Sec 2 & 6
	(h) explain how Internal Audit's resource requirements will be assessed?	Y			Sec 9
	(i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	Y			Sec 2 & 4
1.1.2	Does the Audit Manager advise the organisation on the content and the need for subsequent review of the terms of reference?	Y			Contained in the Terms of Reference - Sec 1
1.1.3	Have the terms of reference been formally approved by the organisation?	Y			Presented to, and noted by, Audit and Risk Committee 14/6/10.
1.1.4	Are the terms of reference regularly reviewed?	Y			Reviewed every 3 years as noted in Sec 1. Due for review in 2013.

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

1.2	Scope of Work				
1.2.1	Does the Audit Manager provide assurance on the risk management processes and maturity?		P		Audit Manager is responsible for the risk register and reports on risk management.
1.2.2	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	Y			Documentation supporting the work to compile the Audit Plan
1.2.3	Where services are provided in partnership has the Audit Manager identified: (a) how assurance will be sought? (b) agreed access rights where appropriate?	Y Y			Covered in the Terms of Reference, Sec 4.3. The Revs & Bens Shared Services agreement states that BCKLWN will provide the internal audit service. A Service Level Agreement will be established with North Norfolk DC.
1.2.4	Is the Audit Manager consulted on all major projects, programmes and policy initiatives to offer advice on the associated control arrangements and risks?		P		The Audit Manager is aware of major projects, etc through access to Management Team agendas and reports to Cabinet and Panels, and can request involvement if deemed necessary.
1.3	Other Work				
1.3.1	Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have: (a) skills, and (b) resources to do this?	Y Y			Qualifications and experience of the team, plus resources available to buy in external expertise if required.
1.4	Fraud and Corruption				
1.4.1	Has the Audit Manager made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	Y			Fraud Response Plan.

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

2.	Independence				
2.1	Principles of Independence				
2.1.1	Is Internal Audit: (a) independent of the activities it audits (b) free from any non-audit (operational) duties (c) independent of external audit?	Y Y Y			Terms of Reference, Sec 3
2.1.2	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?	Y			CIPFA Code of Practice CIIA Standards and Code of Ethics
2.2	Organisational Independence				
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	Y			Terms of Reference, Sec 3 Record of work
2.2.2	Does the Audit Manager have direct access to: (a) officers (b) members?	Y Y			Terms of Reference, Sec 2
2.2.3	Does the Audit Manager report in his or his own name to members and officers?	Y			Reports to Audit and Risk Committee Final audit reports issued.
2.2.4	Is there an assessment that the budget for Internal Audit is adequate?	Y			Annual audit plan process
2.2.5	Does any budget delegated to service areas ensure that : (a) Internal Audit adherence to the Code is not compromised? (b) The scope of Internal Audit is not affected? (c) Internal Audit can continue to provide assurance for the Annual Governance Statement?				N/A – No budget delegated to service areas

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

2.3	Status of the Audit Manager				
2.3.1	Is the Audit Manager managed by a member of the corporate management team?	Y			Executive Director, Finance & Resources.
2.4	Independence of Internal Audit Contractors				
2.4.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?				N/A
2.5	Declaration of Interest				
2.5.1	Do audit staff make formal declarations of interest?	Y			Employee Handbook: <ul style="list-style-type: none"> ▪ Official Conduct – 7.10(i)(a) ▪ Outside Work Commitments - 7.11. ▪ Acceptance of gifts/ monies – 7.10.3 IA Manual, Sec 2.2 stipulates CIIA Standards and Code of Ethics
2.5.2	Does the planning process take account of the declarations of interest registered by staff?	Y			
3	Ethics for Internal Auditors				
3.1	Purpose				
3.1.1	Does the Audit Manager regularly remind staff of their ethical responsibilities?	Y			Included in PRP discussion. Work to CIPFA Code and CIIA Standards and Code of Ethics
3.2	Integrity				
3.2.1	Has the internal audit team established an environment of trust and confidence?	Y			Good working relationship with other members of staff.
3.2.2	Do internal auditors demonstrate integrity in all aspects of their work?	Y			Good working relationship with other members of staff.
3.2.3	Does the Audit Manager demonstrate and promote good governance principles – integrity, objectivity, competence and confidentiality?	Y			Good working relationship with other members of staff.

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

3.3	Objectivity				
3.3.1	Are internal auditors perceived as being objective and free from conflicts of interest?	Y			
3.3.2	Is a time period set by the Audit Manager for staff where they do not undertake an audit in an area where they have had previous operational roles?	Y			
3.3.3	Are staff rotated on regular/ annually audited areas?	Y		Audit workload records	
3.4	Competence				
3.4.1	Does the Audit Manager ensure that staff have sufficient knowledge of: (a) the organisation's aims, objectives, risks and governance arrangements? (b) The purpose, risks and issues of the service? (c) The scope of each audit? (d) Relevant legislation and other regulatory arrangements that relate to the audit?	Y Y Y Y		Corporate Strategy Corporate Risk Monitoring Report Service Plans Audit specific Terms of Reference agreed.	
3.5	Confidentiality				
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	Y		CIIA Standards and Code of Ethics	
4	Audit Committees				
4.1	Purpose of the Audit Committee				
4.1.1	Does the organisation have an independent audit committee?	Y		Independent of Cabinet, but formed from the same members as Resources and Performance Panel	
4.2	Internal Audits Relationship with the Audit Committee				
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	Y			

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

4.2.2	Does the committee approve the internal audit strategy?	Y			Strategy agreed 3/3/11	
4.2.3	Does the committee approve the annual internal audit plan and monitor progress?	Y			Plan endorsed 3/3/11 Quarterly reports	
4.2.4	Does the Audit Manager: (a) attend the committee and contribute to its agenda? (b) Participate in the committee's review of its own remit and effectiveness? (c) Ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives? (d) Report on the outcomes of internal audit work to the committee? (e) Establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa? (f) Present the annual internal audit report to the committee?	Y Y Y Y Y Y			Agendas and minutes Previous year's review Strategic plan Quarterly report Quarterly report contains any changes to plan Annual report presented 1/6/11	
4.2.5	Is there the opportunity for the Audit Manager to meet privately with the audit committee?	Y				
4.2.6	Is the Audit Managers relationship with the Chair of the Audit Committee clearly set out?		P		Subject to the Member/Officer Protocol	
5.	Relationships					
5.1	Principles of Good Relationships					
5.1.1	Is there a protocol that defines the working relationship for Internal Audit with: (a) management (b) other internal auditors (c) external auditors (d) other regulators and inspectors (e) elected members?	Y Y Y	P		IA Terms of Reference N/A Protocol for Liaison between Internal and External Auditors N/A Member/Officer Protocol	

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

5.1.2	Can the Audit Manager attend the Senior Management Team meetings if she feels it is necessary?	Y			Receives the Management Team agenda and can request to attend if deemed necessary.	
5.2	Relationships with Management					
5.2.1	Does the Audit Manager seek to maintain effective relationships between internal auditors' and managers?	Y			Annual discussions as part of audit planning process. Open door policy	
5.2.2	Is the timing of audit work planned in conjunction with management?	Y			Emails to arrange approximate dates at the start of the plan. Email to arrange specific date at the start of the audit.	
5.2.3	Does the Audit Manager have an effective working relationship with: <ul style="list-style-type: none"> • s151 Officer • Monitoring Officer • Chief Executive Officer 	Y Y Y			Line manager. Email correspondence Email correspondence Email correspondence	
5.3	Relationships with Other Internal Auditors					
5.3.1	Do arrangements exist with other internal auditors that included joint working, access to working papers, respective roles and confidentiality?	Y			Norfolk Audit Managers Group. South Norfolk Consortium	
5.4	Relationships with External Auditors					
5.4.1	Is it possible for Internal Audit and External Audit to rely on each other's work?	Y			Protocol for Liaison between Internal and External Auditors	
5.4.2	Are there regular meetings between the Audit Manager and the External Audit Manager?	Y			During Interim work and to discuss protocol (19/4/11).	
5.4.3	Are the internal and external audit plans co-ordinated?	Y			Core audit timings.	
5.5	Relationships with Other Regulators and					

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

	Inspectors				
5.5.1	Has the Audit Manager sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	Y			PWC Audit Commission
5.6	Relationships with Elected Members				
5.6.1	Do the terms of reference for Internal Auditors define the channels of communication with members and describe how such relationships should operate?	Y			Sec 2
5.6.2	Does the Audit Manager maintain good working relationships with members?	Y			
6.	Staffing, Training and Continuing Professional Development				
6.1	Staffing Internal Audit				
6.1.1	Is there a clearly named individual designated as 'Head of Internal Audit'?	Y			Audit Manager
6.1.2	In the case of an employee, is the Audit Manager sufficiently senior and independent to carry out the role without fear or favour?	Y			Reports direct to member of Senior Management Team and Deputy Chief Executive
6.1.3	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	Y			
6.1.4	Does the Audit Manager have access to appropriate resources: <ul style="list-style-type: none"> • to buy in specialist skills and expertise where these are not available within the audit team • in terms of necessary IT tools? 	Y Y			£15k in budget to buy in additional expertise if necessary. IDEA Data Analysis Software
6.1.5	Is the Audit Manager professionally qualified and experienced?	Y			Chartered Member of the Institute of Internal Auditors. 10 years private/public experience

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

6.1.6	Do all internal audit staff have up-to-date job descriptions?	Y			Reviewed as part of PRP process.	
6.1.7	Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	Y				
6.2	Training and Continuing Professional Development					
6.2.1	Has the Audit Manager defined the skills and competencies for each level of auditor?	Y			Job description and person specification	
6.2.2	Are individual auditors periodically assessed against these predetermined skills and competencies?	Y			Part of PRP process and CPD	
6.2.3	Are training or development needs identified and included in an appropriate ongoing development programme?	Y			Part of PRP process	
6.2.4	Is the development programme recorded, regularly reviewed and monitored?	Y			Part of PRP process	
6.2.5	Do individual auditors maintain a record of their professional training and development activities?	Y			CPD Also a record is maintained on CIPHRnet	
6.2.6	Does the Audit Manager have the means to keep up-to-date with any developments in governance, risk management, control and internal auditing?	Y			CIIA and CIPFA updates Plus other technical updates from various other bodies.	
7.	Audit Strategy and Planning					
7.1	Strategy					
7.1.1	(a) Is there an <i>internal audit</i> strategy for delivering the service? (b) Is it kept up-to-date with the organisation and its changing priorities?	Y Y			Reviewed annually	

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) How the Audit Manager will form her opinion on the control environment? (c) How Internal Audit's work will identify and address local and national issues and risks? (d) How the service will be provided, i.e. internally, externally, or a mix of the two? (e) The resources and skills required to deliver the strategy?	Y Y Y Y Y				
7.1.3	Has the strategy been approved by the audit committee?	Y			Report dated 3/3/11	
7.2 Audit Planning						
7.2.1	Is there a risk-based plan that is informed by the organisation's: <ul style="list-style-type: none"> • risk management • performance management • corporate objectives • any other assurance processes? • 	Y			Paperwork supporting the development of the plan.	
7.2.2	Where the risk management process is not fully developed or reliable, does the Audit Manager undertake her own risk assessment process?	Y			Internal Audit risk calculation spreadsheet.	
7.2.3	Are stakeholders consulted on the audit plan?	Y			Executive Directors Audit & Risk Committee Audit team	
7.2.4	Does the plan demonstrate a clear understanding of the organisation's functions?	Y			Paperwork supporting the development of the plan.	

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

7.2.5	Does the plan: (a) cover a fixed period of no longer than one year (b) outline the assignments to be carried out (c) prioritise assignments (d) estimate the resources required (e) differentiate between assurance and other work (f) allow a degree of flexibility?	Y Y Y Y Y	P		Current year plus 2 provisional Core audits only prioritised. Paperwork supporting the development of the plan. Contingencies built in.	
7.2.6	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?	Y			Not arisen so far, but the Committee would be informed if it did occur.	
7.2.7	Has the plan been approved by the audit committee?	Y			Meeting 3/3/11	
7.2.8	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	Y			Changes to the plan are include din the quarterly report. Urgent matters would be notified to the Chair and then taken to the next meeting.	
8.	Undertaking Audit Work					
8.1	Planning					
8.1.1	(a) Is a brief prepared for each audit? (b) Is the brief discussed and agreed with the relevant managers?	Y Y			Audit files	
8.1.2	Does the brief set put: (a) objectives (b) scope (c) timing (d) resources (e) reporting requirements?	Y Y Y Y Y			Terms of Reference template.	
8.2	Approach					
8.2.1	Is a risk based audit approach used?		P		Combination of risk and straightforward systems approach.	

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

8.2.2	Does the audit approach show when management should be informed of interim findings where (serious) issues have arisen?	Y			Internal Audit manual, Sec 13.1	
8.2.3	Does the audit approach include a quality review process for each audit?	Y			Internal Audit manual, Sec 15	
8.3 Recording Audit Assignments						
8.3.1	Has the Audit Manager defined a standard for audit documentation and working papers?	Y			Internal Audit manual, App F	
8.3.2	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	Y			Review sheets in audit files. Checklist on back of Contact Sheet.	
8.3.3	Are working papers such that an experienced auditor can easily: (a) identify the work that has been performed? (b) Re-perform it if necessary? (c) See how the work supports the conclusions reached?	Y Y Y				
8.3.4	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	Y			Internal Audit manual, App H	
8.3.5	Do all retention and access policies conform to appropriate legislation, i.e. Data Protection Act, Freedom of Information Act, etc and any organisational requirements?	Y				
8.3.6	Is there an access policy for audit files and records?	Y			Internal Audit manual, Sec 13.3.	
9. Due Professional Care						
9.1 Responsibilities of the Individual Auditor						
9.1.1	Are there documents that set out the requirements on all audit staff in terms of: (a) being fair and not allowing prejudice or bias to override objectivity? (b) Declaring interests that could be perceived to be conflicting or could potentially lead to conflict? (c) Receiving and giving gifts and hospitality	Y Y Y			CIIA Standards and Code of Ethics Internal Audit Terms of Reference Staff Handbook	

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

	from employees, clients, suppliers or third parties?				
	(d) Using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions?	Y			
	(e) Being alert to the possibility of intentional wrongdoing, error or omissions, poor value for money, failure to comply with management policy or conflict of interest?	Y			
	(f) Having sufficient knowledge to identify indicators that fraud or corruption may have been committed?	Y			
	(g) Disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice?	Y			
	(h) Disclosing any non-compliance with these standards?	Y			
	(i) Not using information they gain in the course of their duties for personal use?	Y			
9.2	Responsibilities of the Audit Manager				
9.2.1	Has the Audit Manager established a monitoring and review programme to ensure due professional care is achieved and maintained?	Y		Internal Audit Manual, Sec 15. Audit file reviews.	
9.2.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	Y		Direct access to Audit Manager and Executive Director, Finance & Resources	
10.	Reporting				
10.1	Principles of Reporting				
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	Y		Internal Audit Manual, Sec 13. Report template	
10.1.2	Has the Audit Manager determined the way in which Internal Audit will report?	Y		Internal Audit Manual, Sec 13.	
10.1.3	Has the Audit Manager set out the standards for internal audit reporting?	Y		Internal Audit Manual, Sec 13.	

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

10.1.4	Are there laid-down timescales for reports to be issued?	Y			PRP targets include issuing of final reports within 2 weeks of file review completed. Internal Audit Manual, Sec 13 states final reports to be issued to wider audience 2 weeks after line manager & ED	
10.2 Reporting on Audit Work						
10.2.1	Do the reporting standards include: (a) format of the reports (b) quality assurance of the reports (c) the need to state the scope and purpose of the audit (d) the requirement to give an opinion (e) process for agreeing reports with the recipient (f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?	Y Y Y Y Y Y			Report template Terms of Reference attached to report Report template Internal Audit Manual, Sec 13 Report template	
10.2.2	Does the audit reporting process include discussion and agreement of records?	Y			Internal Audit Manual, Sec 13	
10.2.3	Has the Audit Manager determined a process for prioritising recommendations according to risk?	Y			Report template	
10.2.4	Are areas of disagreement recorded appropriately?	Y			Emails and draft reports demonstrate any areas of disagreement.	
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention of senior management?	Y			Recommendation retained in report and management comments entered as appropriate.	
10.2.6	Is the circulation of each audit report determined when preparing the brief?	Y			General circulation of reports given in Internal Audit Manual, Sec 13. Specific circulation may change according to findings during the audit.	

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

10.2.7	(a) Does the reporting process include details of circulation of that particular audit report? (b) Is this included in the brief for each individual audit?	Y Y			Report template Terms of Reference (Brief) template.	
10.2.8	Does the Audit Manager have mechanisms in place to ensure that : (a) recommendations that have a wider impact are reported to the appropriate forums (b) risk registers are updated?	Y Y			Relevant sections of the final report are sent out as needed. Risk assessment sheets and risk calculation spreadsheet.	
10.3 Follow-up Audits and Reporting						
10.3.1	Has the Audit Manager defined the need for and the form of any follow-up action?	Y			Internal Audit Manual, Sec 14	
10.3.2	Has the Audit Manager established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	Y			Internal Audit Manual, Sec 14.	
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?			N	The follow-up report comments on the progress in implementing the agreed action plan. It does not change the original findings.	
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	Y			Referred to during work to set Strategic Audit Plan.	
10.4 Annual Reporting and Presentation of Audit Opinion						
10.4.1	Does the Audit Manager provide an annual report to support the Annual Governance Statement?	Y			Report to Audit & Risk Committee 1/6/11.	

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

10.4.2	Does the Audit Manager issue an annual report in her own name that: (a) includes an opinion on the overall adequacy and effectiveness of the organisation's control environment? (b) Discloses any qualifications to that opinion, together with the reasons for qualification (c) Presents as a summary of the audit work from which the opinion was derived, including any reliance placed on work by other assurance bodies? (d) Draws attention to any issues the Audit Manager judges particularly relevant to the preparation of the Annual Governance Statement (e) Compares the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets (f) Comments on compliance with the standards of the Code (g) Communicates the results of the internal audit quality assurance programme (h) Demonstrates how the internal audit adds value?	Y			Annual report 1/6/11 None have arisen so far.	
10.4.3	Has the Audit Manager made provision for interim reporting to the organisation during the year?	Y			Quarterly reports to Audit and Risk Committee	
11.	Performance, Quality and Effectiveness					
11.1	Principles of Performance, Quality and Effectiveness					
11.1.1	Is there an audit manual?	Y				
11.1.2	Does the audit manual provide guidance on: (a) carrying out day-today audit work	Y			Internal Audit Manual, App F	

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

	(b) complying with the Code	Y		Internal Audit Manual, Sec 2.2	
11.1.3	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	Y		Formally every 3 years –Sec 2.3. Revised as necessary in between that.	
11.1.4	Does the Audit Manager have arrangements in place to assess the performance and effectiveness of: (a) each individual audit (b) the internal audit service as a whole?	Y Y		File reviews. Annual review of effectiveness. Annual report process. Strategic audit planning process.	
11.2	Quality Assurance of Audit Work				
11.2.1	Does the Audit Manager have a process to ensure that work is allocated to auditors who have the appropriate skills, experience and competence?	Y		Personal knowledge of skills and experience is applied during allocation of audits.	
11.2.2	Does the Audit Manager have a process in place to ensure that all staff are supervised appropriately throughout all audits?	Y		Monthly Team Meetings. Open door policy to discuss any issues.	
11.2.3	Does the supervisory process cover: (a) monitoring process (b) assessing quality of audit work (c) coaching staff	Y		As 11.2.2 above. File reviews. PRP discussions.	
11.3	Performance and Effectiveness of the Internal Audit Service				
11.3.1	Does the Audit Manager have a performance management and quality assurance programme in place?	Y			
11.3.2	Does the performance management and quality assurance framework include as a minimum: (a) a comprehensive set of targets to measure performance: (i) which are developed in consultation with appropriate parties (ii) which are included in service level agreements,	Y		Targets set in Service Plan. Quarterly reports to Audit and Risk Committee.	

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
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For the year 2011-12

AGENDA ITEM 10

	where appropriate (iii) against which the Audit Manager measures, monitors and reports appropriately on progress (b) user feedback obtained for each individual audit and periodically for the whole service? (c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy? (d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual? (e) an action plan to implement improvements?	Y			Customer Satisfaction Questionnaires	
		Y			Quarterly reports	
		Y			Audit file reviews Annual review of effectiveness	
		Y			Resulting from annual review	
11.3.3	Does the Audit Manager compare performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	Y				
11.3.4	Do the results of the performance management and quality assurance programme evidence that the internal audit service is: (a) meeting its aims and objectives (b) compliant with the Code (c) meeting internal quality standards (d) effective, efficient, continuously improving (e) adding value and assisting the organisation in achieving its objectives?	Y Y Y Y Y				
11.3.5	Does the Audit Manager report on the results of the performance management and quality assurance programme in the annual report?	Y			Included in the quarterly progress reports and in the Annual Report.	

CIPFA – Checklist for Compliance with Code of Practice for Internal Audit. 2006
 (plus CIPFA statement on 'The Role of the Head of Internal Audit')
For the year 2011-12

AGENDA ITEM 10

11.3.6	Does the Audit Manager provide evidence from her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	Y			
11.3.7	Is the internal audit service subject to a regular external review?		P	PWC reviewed core audit files and internal audit working practices and established that reliance can be placed on the work.	

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	Portfolio:
Author Name: Kate Littlewood	CONSULTATIONS: Deputy Chief Executive Democratic Services Officer Chair, Audit and Risk Committee Vice Chair, Audit and Risk Committee
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OPEN	

PR & D Panel: **RESOURCES AND PERFORMANCE PANEL – AUDIT AND RISK COMMITTEE**
Date: **26th June 2012**
Subject: **Review of the Effectiveness of the Audit and Risk Committee**

<p>Summary</p> <p>This report provides Committee Members with the results of the Review of the Effectiveness of the Audit and Risk Committee.</p> <p>Recommendation</p> <p>To note the contents of the review and the resulting ‘Actions Required’.</p>

1.0 INTRODUCTION AND BACKGROUND

- 1.1 The Audit and Risk Committee was set up in 2006, with Terms of Reference drawn up in line with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). These were approved by Council in November 2006.
- 1.2 Under the Accounts and Audit Regulations 2011, a council is required ‘to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions’.
- 1.2 Good corporate governance requires independent, effective assurance about the adequacy of financial and operational management and reporting. This assurance is best delivered by a committee that is independent from the executive and scrutiny functions. This is provided by the Audit and Risk Committee.

AGENDA ITEM 11

- 1.3 In order to ensure that this monitoring of governance is carried out effectively, a regular review of the role and activities of the Audit and Risk Committee is necessary.
- 1.4 The previous review, reported to this Committee on 31st August 2011, indicated that the Committee was providing an effective service, but two 'Action Required' proposals were made for further improvement. It was suggested that the reference to the Audit and Risk Committee be expanded in the Annual Governance Statement to provide more detail of the establishment and activities of the Committee. It was also suggested that the Committee should ensure that Internal Audit to follow up on recommendations made by the external auditors. Both these actions have been implemented. The external auditors' recommendations are taken into account when the Internal Audit Strategic Plan is prepared, and are included in the relevant audits.

2.0 REVIEW DETAILS

- 2.1 The review was completed by the Audit Manager the using a checklist compiled by CIPFA. The completed checklist is attached as **Appendix 1** of this report. In addition information has been compiled on the reports considered by the Committee. The draft report was then considered by the Chair and Vice Chair.
- 2.2 The responses in the checklist are ticked as:
 - 'Y' – Yes. The criteria have been met and no action is required.
 - 'P' – Partial. The criteria have only been met in part, some action may be required.
 - 'N' – No. The criteria have not been met and action may be required.
- 2.3 The review indicates that the Committee is functioning correctly as an audit committee and is effective in its role.
- 2.4 The review of the effectiveness of the committee needs to be carried out annually to inform the Annual Governance Statement and will probably use the questionnaire approach again. It is also proposed that a detailed review of the Terms of Reference should take place every 3 years, in order to ensure that they are still in line with CIPFA guidance, and the results submitted to Council for approval. The next review is due in 2013.

3.0 ITEMS CONSIDERED DURING 2011-12

- 3.1 Throughout 2011-12 the Audit and Risk Committee held 14 meetings and received a total of 30 reports on a number of issues, including:

Internal Audit

- Internal Audit Annual Report 2010-11.
- Review of the Effectiveness of the Internal Audit Service.
- Internal Audit Plan 2011-12, Quarterly Progress Reports (4 reports).
- Communities and Local Government Consultation on 'Future of Local Public Audit' (2 reports).

- PWC Protocol 2011-12.
- Internal Audit Strategic Audit Plan 2012-15.

External Audit

- Certification Report (2009-10) to those charged with Governance.
- Follow up reports for previous reviews (2 reports).
- Statement of Accounts 2010-11 – Report to those charged with Governance (ISA 260).
- Annual Audit Letter.
- External Audit Plan 2011-12.
- Certification Report 2010-11.
- External Audit Plan 2011-12 – Audit thresholds

Finance

- Revenue Outturn 2010-11.
- Capital Programme and Resources 2010-14.
- Annual Treasury Report 2010-11.

Fraud

- Fraud and Investigations Unit – Annual Report 2010-11.
- Fraud and Investigations Unit – half yearly report.

Corporate Governance and Risk

- Corporate Risk Monitoring Report – 6-monthly report (2 reports).
- Councillor Call for Action – review.
- Annual Governance Statement.
- Review of the Effectiveness of the Audit and Risk Committee.
- Business Continuity Policy and Strategy.
- Document Retention Policy.
- Update to Financial Regulations.

A summary of the content of each report has been compiled by Democratic services and is attached as **Appendix 2**.

3.2 Training was offered to Committee members during the year on:

- Statement of Accounts
- Internal and External Audit
- Risk Assessment

3.3 In addition the Committee received a presentation on the Benefits Advice and Review Team to inform them of the work carried out by this section.

4.0 OUTCOMES

4.1 The outcome of the report will be to:

- Show evidence that the Audit and Risk Committee is effective in its role.
- Establish arrangements by which the review can be judged and can continue to be implemented.

AGENDA ITEM 11

- Satisfy the requirement of an annual review of the effectiveness of the Audit and Risk Committee.

5.0 CONCLUSIONS

- 5.1 During 2011-12 the Audit and Risk committee received and commented on all relevant reports and actively monitored risk and internal controls. As a result it is continuing to perform effectively and the Council is meeting its requirements under the Accounts and Audit Regulations 2011.

No	Issue	Y	P	N	Evidence/ Comment	Action Required
1. ESTABLISHMENT, OPERATION AND DUTIES						
Role and Remit						
1.1	Does the audit committee have written Terms of Reference?	Y			Agreed by Council	
1.2	Do the Terms of Reference cover the core functions of an audit committee as identified in the CIPFA guidance?	Y				
1.3	Are the Terms of Reference approved by the council and reviewed periodically?	Y			Approved by Council 30 th November 2006 Reviewed 22 nd July 2010.	
1.4	Can the audit committee access other committees and full council as necessary?	Y			All Members attend Council, and any Member can be present and speak at any other meeting under Standing Order 34.	
1.5	Does the authority's Annual Governance Statement include a description of the audit committee's establishment and activities?	Y			Annual Governance Statement - Section 7	
1.6	Does the audit committee periodically assess its own effectiveness?	Y			Last report was on 31 st August 2011 reporting on the year 2010/11	
Membership, Induction and Training						
1.9	Has the membership of the audit committee been formally agreed and a quorum set?	Y			Via Democratic Services	
1.10	Is the chair independent of the executive function?		P		Independent of Cabinet, but Resources & Performance Panel acts as the Audit & Risk Committee.	None required, Format satisfies current administration.
1.11	Has the audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	Y			Experience in personal work life. Previous member of Council Audit & Risk Committee.	
1.12	Are new audit committee members provided with appropriate induction?	Y			Annual training programme is put together by Democratic Services.	
1.13	Have all member's skills and experiences been assessed and training given for identified gaps?	Y			Annual training programme is put together by Democratic Services. Members raise specific training needs as required.	

**Borough Council of King's Lynn and West Norfolk
Audit and Risk Committee Self Assessment Exercise**

AGENDA ITEM 11 - APPENDIX 1

No	Issue	Y	P	N	Evidence/ Comment	Action Required
1.14	Has each member declared his or her business interests?	Y			Records kept by Democratic Services.	
1.15	Are members sufficiently independent of other key committees of the council?			N	Resources & Performance Panel also acts as Audit & Risk Committee.	None required, Format satisfies current administration.
Meetings						
1.16	Does the committee meet regularly?	Y			Monthly meetings are planned.	
1.17	Do the Terms of Reference set out the frequency of meetings?	Y			At least 4 times a year.	
1.18	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	Y			Full account taken of required deadlines.	
1.19	Are members attending meetings on a regular basis and if not, is appropriate action taken?	Y			Attendance records are kept. Substitutes are required in the event of absence.	
1.20	Are members free and open without political influences being displayed?	Y				
1.21	Does the authority's s151 officer or deputy attend all meetings?	Y				
1.22	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	Y			Appropriate officers present the reports and the committee can require relevant officers to attend to answer questions if necessary.	
1.23	Are decisions reached promptly?	Y			Decisions are made at the meeting.	
2. INTERNAL CONTROL						
2.1	Does the audit committee consider the findings of the annual review of effectiveness of the system of internal control (as required by the Accounts and Audit Regulations) including the review of the effectiveness of the system of internal audit?	Y			Report on the Effectiveness of Internal Audit on 26 th June 2012.	

No	Issue	Y	P	N	Evidence/ Comment	Action Required
2.2	Does the audit committee have responsibility for review and approval of the Annual Governance Statement and does it consider it separately from the accounts?	Y			To be presented to the committee on 11 th September 2012.	
2.3	Does the audit committee consider how meaningful the Annual Governance Statement is?		P		The Minutes indicate some discussion around the issues.	
2.4	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	Y			Receives regular reports on internal and external audit work, financial statements and any other issues relating to risk and governance.	
2.5	Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	Y			Cabinet forward decision list is reviewed for any reports that the committee needs to consider.	
2.6	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?	Y			Strategic Audit Plan 2012-15 presented to committee 31 st January 2012.	
2.7	Does the audit committee review the authority's strategic risk register at least annually?	Y			Twice yearly review in April and October.	
2.8	Does the audit committee monitor how the authority assesses risk?	Y			Half yearly Risk Monitoring reports in April and October.	
2.9	Do the audit committee's Terms of Reference include oversight of the risk management processes?	Y			Terms of Reference Section 4.1 (a) and (b) refer.	
2.10	Does the audit committee take a role in overseeing anti-fraud and whistleblowing arrangements?	Y			Terms of Reference Section 4.1 (a) refers.	
3. FINANCIAL REPORTING & REGULATORY MATTERS						
3.1	Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?	Y			Terms of Reference Statement of Purpose. Timetable includes financial reporting at special meetings held in June and September.	
3.2	Does the audit committee consider specifically: <ul style="list-style-type: none"> ▪ The suitability of accounting policies and treatments ▪ Major judgements made ▪ Large write-offs ▪ Changes in accounting treatment 	Y			The reports presented include all applicable aspects. The Minutes show discussion of specific items, such as Thresholds on Misstatements during the meeting on 27 th March 2012.	

No	Issue	Y	P	N	Evidence/ Comment	Action Required
	<ul style="list-style-type: none"> ▪ The reasonableness of accounting estimates ▪ The narrative aspects of reporting? 					
3.3	Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	Y			September meeting each year is set aside.	
3.4	Does the audit committee review management's letter of representation?	Y			Included in the above report 13 th September 2011.	
3.5	Does the audit committee annually review the accounting policies of the authority?	Y			Included in the Statement of Accounts. Meeting held 16 June 2011	
3.6	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	Y			Chief Accountant and Chief Finance Officer attend to answer any questions.	
3.7	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	Y			Members Bulletin is circulated to all members and contains updates and circulars. Committee members are offered training throughout the year.	
4.INTERNAL AUDIT						
4.1	Does the audit committee approve annually, and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?	Y			Presented 31 st January 2012.	
4.2	Does internal audit have an appropriate reporting line to the audit committee?	Y			Direct access to Chair and Vice-Chair.	
4.3	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Audit Manager?	Y			Quarterly progress reports plus the Annual Report.	

**Borough Council of King's Lynn and West Norfolk
Audit and Risk Committee Self Assessment Exercise**

AGENDA ITEM 11 - APPENDIX 1

No	Issue	Y	P	N	Evidence/ Comment	Action Required
4.4	Are follow-up audits by Internal Audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	Y			Included in the quarterly reports.	
4.5	Does the audit committee hold periodic private discussions with the Audit Manager?			N	None this year, but access is available if required.	None required.
4.6	Is there appropriate co-operation between the internal and external auditors?	Y			Protocol agreed and meetings held during external audit work.	
4.7	Does the audit committee review the adequacy of internal audit staffing and other resources?	Y			Part of Internal Audit Strategic Plan agreed each year. Plus the question is sometimes raised during the quarterly progress reports.	
4.8	Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal Audit in Local Government?	Y			Effectiveness review completed and reported to meeting 26 th June 2012.	
4.9	Are internal audit performance measures monitored by the audit committee?	Y			Agreed as part of Internal Audit strategy and included in quarterly reports.	
4.10	Has the audit committee considered the information it wishes to receive from internal audit?		P		Occasional requests made in response to a report, but no proactive requests.	
5. EXTERNAL AUDIT						
5.1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognising the statutory duties of external audit)?	Y			The plans and strategy have been presented by PWC on 28 th February 2012	
5.2	Does the audit committee hold periodic private discussions with the external auditor?			N	Facility is available if required.	None required.
5.3	Does the audit committee review the external auditor's annual report to those charged with governance?	Y			Presented to meeting 13 th September 2011.	
5.4	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	Y			Work to prepare the Internal Audit Strategic Plan includes reference to the external auditors recommendations.	

No	Issue	Y	P	N	Evidence/ Comment	Action Required
5.5	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit inspection letter?	Y			Follow-up reviews by external audit – April to August 2011 Report to those charged with Governance (ISA 260) – September 2011 Annual Audit letter - November 2011 Certification Report – January 2012 External audit plan – January 2012	
5.6	Does the audit committee assess the performance of external audit?		P		Not formally assessed.	
6. ADMINISTRATION						
Agenda Administration						
6.1	Does the audit committee have a delegated secretary from Committee/Member Services?	Y				
6.2	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	Y			Usually 2 weeks prior to meeting unless a report is going to a later Cabinet meeting. Then relevant reports are sent out after the Cabinet agenda has been published.	
6.3	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	Y			Timetable produced.	
6.4	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?			N	AOB does not appear on the agendas. It is expected that all business will be in the agenda, except for urgent business which is covered under Standing Order 7.	None required.
Papers						
6.5	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	Y			Refer to agendas.	
6.6	Does the audit committee issues guidelines and/or a proforma concerning the format and content of the papers to be presented?			N	Corporate format used.	None required.

No	Issue	Y	P	N	Evidence/ Comment	Action Required
Actions Arising						
6.7	Are minutes prepared and circulated promptly to the appropriate people?	Y			Within a few days of the meeting.	
6.8	Do action points indicate who is to perform what and by when?	Y			Where action is required.	

No	Issue	Y	P	N	Evidence/ Comment	Action Required
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ISSUES DISCUSSED AT MEETINGS OF AUDIT & RISK COMMITTEE 2011 - 2012

<u>Date of Meeting/Length of Meeting</u>	<u>Details</u>	<u>Outcome</u>
11 April 2011 (43 mins)		
ARC86: Corporate Risk Monitoring Report – October 2010 to March 2011	The Audit Manager presented the half-yearly monitoring report and outlined the proposed format for future reporting purposes. The Committee was advised that the responsibility for maintaining the Corporate Risk Register had passed to the Audit Manager.	RESOLVED: That the report be noted and the proposed future format for reporting be approved.
ARC87: Certification Report (2009/10) to those charged with Governance	The Revenues and Benefits Manager presented the Annual Certification Report which summarised the 2009/10 results of the certification work. It was noted that the purpose of the report was to provide a high level overview of the results of certification work PWC had undertaken at the Borough Council of King's Lynn and West Norfolk on 2009/10 claims and returns that was accessible for Members and other interested stakeholders. Members were advised that the fees for 2009/10 certification work was summarised at Appendix A to the report.	RESOLVED: That the Committee noted the report and approved the proposed management action plan set out in Appendix B.
ARC88: Councillor Call for Action – Review	The Senior Democratic Services Officer presented the report and explained that on 26 May 2009, a protocol for dealing with Councillor Call for Action was agreed by Cabinet. At the meeting of the Audit and Risk Committee held on 3 March 2011, it was agreed that the CCfA procedures be reviewed, following a request by Councillor Dobson.	RESOLVED: That Cabinet re requested to review the Councillor Call for Action Protocol in accordance with the recommendation set out below: The Councillor Call for Action be changed in accordance with Appendix 2 (Option 1 as originally considered) that the decision be made by the appropriate Panel at its next routing meeting after the CCfA was submitted. If the decision was upheld, the CCfA would be considered at the Panel's next routine meeting, and where required all relevant parties be invited to attend.
1 June 2011 (65 mins)		
ARC7: Equality Impact Assessments – Follow Up Review	Members received a report on the follow up review undertaken during March 2011. The Personnel Services Manager explained that in 2008/09 an external audit on Equality Impact Assessment was undertaken, resulting in a report to the Committee in February 2009. A follow up audit was agreed as part of the 2010/11 external audit programme and was undertaken during March 2011.	RESOLVED: That the report be noted and the ongoing progress towards the recommendations made via the Audit process.

No	Issue	Y	P	N	Evidence/ Comment	Action Required
ARC8: Environmental and Sustainability Follow Up Review	Members received a report that advised Members that an environmental sustainability review had been undertaken at the Borough Council in 2008/09, which identified a number of recommendations. The report assessed the progress taken by the Council to address the recommendations contained within the Council's environment and sustainability report.					RESOLVED: That the report be noted.
ARC9: Fraud and Investigations Unit – Annual Report 2010/2011	Members received the Annual Report which provided Members with information regarding the work undertaken during the 2010/2011 financial year and looked forward into 2011/12.					RESOLVED: That the report be noted.
ARC10: Internal Audit Plan 2010/11 – Progress Report for the Quarter January to March 2011	Members received the report which showed the Internal Audit activity for the quarter January to March 2011 against the Strategic Audit Plan 2010/2013.					RESOLVED: That the report be noted.
ARC11: Internal Audit Annual Report 2010/11	Members received the report which provided an overview of the work undertaken by the Internal Audit Section during the 2010/11 financial year against the Strategic Audit Plan 2010/13, and provided an assurance opinion to support the Annual Governance Statement.					RESOLVED: That the report be noted.
ARC12: Communities and Local Government Consultation on 'Future of Local Public Audit'	<p>The Audit Manager advised that in March 2011 the Department for Communities and Local Government issued a consultation document on proposals for local public bodies to appoint their own independent external auditor. The report presented a suggested response to the consultation.</p> <p>The Committee was advised that at present the Audit Commission appointed the Council's external auditors and monitored their standards of work.</p>					<p>RESOLVED: That the Resources and Performance Panel (Audit and Risk Committee) approve the proposed response to the consultation document, subject to the following comment being included:</p> <p>“That the Resources and Performance Panel's (Audit and Risk Committee) preference would be for the Chairman and Vice-Chairman of the Audit Committee to be independent members.”</p>
16 June 2011 (55 mins)						
ARC19: Annual Governance Statement 2011	The Performance and Efficiency Manager presented a report which proposed the approval of the Council's Annual Governance Statement for the year 2010/2011.					RESOLVED: That Cabinet be advised that the Committee noted the Annual Governance Statement 2011.
ARC20: Revenue Outturn 2010/11	The Executive Director, Finance and Resources presented the report that set out in summary the revenue outturn of 2010/2011 for the General Fund (Council tax accounts). The report showed details of the major differences between actual costs/income and the revised estimates for					RESOLVED: That Cabinet be advised that the Resources and Performance – Audit and Risk Committee endorse the recommendation set out in the Cabinet report, as follows:

No	Issue	Y	P	N	Evidence/ Comment	Action Required
					2010/2011 reported in the February monitoring report.	That Council approves the revenue outturn and proposed transfers to reserves for 2010/2011.
ARC21:	Capital Programme and Resources 2010/2014				The Chief Accountant presented the report which provided details of the outturn of the 2010/2011 capital programme and outlined amendments and rephrasing to the spending on schemes, revising the programme for 2011/2014. The capital programme outturn for 2010/2011 totalled £4,812,717 against an approved budget of £9,838,470. It had been necessary to rephrase a total of £4,17,080 of scheme costs to 2011/2012, £470,000 to 2012/2013 and £70,000 to 2013/014.	RESOLVED: That Cabinet be advised that the Resources and Performance – Audit and Risk Committee endorse the recommendations set out in the Cabinet report, as follows: <ol style="list-style-type: none"> 1) That Council note the outturn of the capital programme for 2010/2011 of £4,812,717. 2) That the financing arrangements for the 2010/2011 capital programme be approved. 3) Cabinet recommends to Council the amendments and rephrasing to capital schemes and resources for the 2011/2014 capital programme as detailed in the report. 4) That Council approve the revised 2011/2012 capital programme of 311,426,010 as detailed in the report. 5) That a detailed review of the 2011/2014 capital programme and resources be undertaken and a report presented to the 4 October 2011 Cabinet. 6)
ARC22:	Annual Treasury Report 2010/2011				The Chief Accountant presented the Annual Treasury Report 2010/2011 and explained that the Council had formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2009) and remained fully compliant with its requirements.	RESOLVED: That Cabinet be informed that the Resources and Performance – Audit and Risk Committee note the Annual Treasury Report 2010/2011.
28 June 2011 (9 mins)						
ARC30:	Review of the Effectiveness of the Internal Audit Service				The Audit Manager presented the report which provided Committee Members with the results of the Review of the Effectiveness of the Internal Audit Service.	RESOLVED: That the contents of the review report be noted and the resulting 'Actions Required.'
19 July 2011 (38 mins)						
ARC39:	Presentation on the Benefits Advice and Review Team				The Benefits Advice and Review Team Supervisor gave a presentation on the work undertaken by the team and also presented the Annual Report of the Benefits Advice and Review Team.	RESOLVED: That the report be noted.

No	Issue	Y	P	N	Evidence/ Comment	Action Required
ARC40:	Internal Audit Plan 2011/2012 – Quarterly Report Progress Report for the Quarter April to June 2011				The Executive Director, Finance and Resources presented a report which the Internal Audit activity for the quarter April to June 2011 against the Strategic Audit Plan 2011/2014.	RESOLVED: That the report be noted.
31 August 2011 (34 mins)						
ARC49:	Review of the Effectiveness of the Audit and Risk Committee				The Audit Manager presented a report that provided Committee Members with the results of the Review of the Effectiveness of the Audit and Risk Committee.	RESOLVED: That the contents of the review and the resulting 'Actions Required' be noted.
ARC50:	Update on 'Future of Local Public Audit'				The Audit Manager explained that in March 2011 the Department for Communities and Local Government issued a consultation document, to which the Council responded, on proposals for local public bodies to appoint their own independent external auditor. The report presented the updates that had been received from the Department for Communities and Local Government and the Audit Commission.	RESOLVED: That the update report be noted.
13 September 2011 (60 mins)						
ARC 58:	Statement of Accounts 2010/2011 Report to those charged with Governance (ISA 260 (UK&I))				The Executive Director, Finance and Resources presented a report that introduced the Statement of Accounts (SOA) 2010/2011 – essentially the Statement was the final accounts set out in a format which included the Council's balance sheet and associated notes. Within the full statement was an Annual Governance Statement which had been signed by the Leader and Chief Executive of the Council.	RESOLVED: That Cabinet be advised that the Resources and Performance – Audit and Risk Committee supports the recommendations (1) to (3) set out in the Cabinet report, with an additional recommendation 4 as follows: <ol style="list-style-type: none"> 1) That Council approves the Statement of Accounts for 2010/2011. 2) That Cabinet approve the authority for any changes required to the Statement of Accounts is delegated to the Deputy Chief Executive, in consultation with the Leader of the Council, to authorise amendments and if necessary present an update Statement to Council. 3) That Cabinet notes the comments of the auditor in the ISA260. 4) That Cabinet note the summary of uncorrected misstatements and recommend that no change be made to the accounts for those items.

No	Issue	Y	P	N	Evidence/ Comment	Action Required
27 September 2011 (17 mins)						
ARC59: PWC Protocol 2011/2012	The Deputy Chief Executive presented the document which set out the proposed working relationship between the PWC audit team and the internal audit team of the Borough Council. The purpose of the document was to set out the general approach and principles to be put in place to facilitate the delivery of a managed audit. This would in turn aid joined-up working, reducing duplication of audit work.					RESOLVED: That the protocol for liaison between internal and external auditors be noted.
25 October 2011 (25 mins)						
ARC70: Cabinet Report: Business Continuity Policy and Strategy	The Performance and Efficiency Manager presented the report and explained that the Civil Contingencies Act 2004 placed a duty on Category 1 responders (of which the Council was one) to develop and maintain plans to ensure that if an emergency occurred, the authority was able to continue to perform its critical activities and key services.					RESOLVED: That Cabinet be advised that the Resources and performance Panel – Audit and Risk Committee supports the recommendation as set out in the report to Cabinet as follows: That Cabinet accept the new version of the Business Continuity Policy Statement and Strategy, attached, and that they recommend acceptance by Full Council.
29 November 2011 (50 mins)						
ARC79: Cabinet Report: Document Retention Policy	The Audit Manager presented the report which set out the background for the need to change the current policy for the retention of documents and records of the Council					RESOLVED: That Cabinet be advised that the Resources and Performance Panel – Audit and Risk Committee supports the recommendation as set out in the report to Cabinet as follows: For Cabinet to recommend that Council approve the Retention Policy.
ARC80: Cabinet Report: Update to Financial Regulations	The Audit Manager presented the report which proposed amendments to the Financial Regulations to reflect recent changes in the Management Team.					RESOLVED: That Cabinet be advised that the Resources and Performance Panel – Audit and Risk Committee supports the recommendation as set out in the report to Cabinet as follows: For Cabinet to recommend that Council approve the amended Financial Regulations.

No	Issue	Y	P	N	Evidence/ Comment	Action Required
ARC81: Fraud and Investigations Unit – Half Yearly Report					The Fraud and Investigations Manager presented the report which provided Members with information regarding the work undertaken during the first half of 2011/2012 financial year.	RESOLVED: That the report be noted.
ARC82: Internal Audit Plan 2011/12 – Quarterly Progress Report for the Quarter July to September 2011					The Audit Manager presented the report that showed the Internal Audit activity for the quarter July to September 2011.	RESOLVED: That the report be noted.
ARC83: Corporate Risking Monitoring Report					The Audit Manager presented the Corporate Risk Monitoring Report which outlined the changes to the Risk Register since the last monitoring report in April 2011 and gave details of the risks falling into the 'Very High' category and the associated work to mitigate the effects.	RESOLVED: That the report be noted.

No	Issue	Y	P	N	Evidence/ Comment	Action Required
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4 January 2012 (34 mins)						
ARC92: Annual Audit Letter	The External Auditor presented the Annual Audit Letter to Members.					RESOLVED: (1) That the Committee note the Annual Audit Letter. (2) The External Audit documents be published on InSite.
ARC93: Presentation of Audit Documents available on InSite	The Audit Manager gave a presentation on how Members of the Committee could access audit documents available on InSite.					RESOLVED: (1) That the Committee note the audit documents published of the Council's Intranet which were available to Members. (2) The External Audit documents would be published on Site for Members to view.
31 January 2012 (23 mins)						
ARC102: Internal Audit Strategic Audit Plan 2012 - 2015	The Audit Manager presented the report which provided Members with the opportunity to review the proposed Strategic Internal Audit Plan for 2012 – 2015.					RESOLVED: That the Committee note the Strategic Internal Audit Plan for 2012 – 2015.
ARC103: Internal Audit Plan 2011/2012 – Progress Report for the Quarter October to December 2011	The Audit Manager presented the report which showed the Internal Audit activity for the quarter October to December against the Strategic Audit Plan 2011/2014.					RESOLVED: That the Committee note the report.

No	Issue	Y	P	N	Evidence/ Comment	Action Required
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28 February 2012 (53 mins)						
ARC113: External Audit Plan 2011/2012	Alison Ridley, Senior Manager from PWC presented the External Audit Plan for 2011/2012.				RESOLVED: That the Committee note the External Audit Plan 2011/2012.	
ARC114: Certification Report 2010/2011	Alison Ridley, Senior Manager from PWC presented the Annual Certification Report.				RESOLVED: That the Committee note the Certification report 2010/2011.	
27 March 2012 (9 mins)						
ARC 123: External Audit Plan 2011/2012 – Audit thresholds	The Deputy Chief Executive reminded the Committee that at the meeting on 28 February 2012, Members expressed concern that the statement made relating to materiality was in the public domain and that the information could be misconstrued and cause adverse comments to the Council. The Committee requested that the Deputy Chief Executive explained the use of thresholds by the External Auditor when auditing the closing of the Council's Accounts.				RESOLVED: The Committee agreed that the audit thresholds note be included as an explanatory note in the External Audit Plan 2011/2012 subject to the wording to be amended as follows: <i>Materiality was a matter of judgement concept and was generally defined as an amount of disclosure that, if it had been corrected, would have altered the views/conclusions of the users of the accounts.</i>	

REPORT TO CABINET

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:		Other Cabinet Members consulted: None		
		Other Members consulted: None		
Lead Officer: Lorraine Gore E-mail: lorraine.gore@west-norfolk.gov.uk Direct Dial: 01553 616432		Other Officers consulted: David Thomason, Management Team		
Financial Implications NO	Policy/Personnel Implications NO	Statutory Implications (incl S.17) YES	Equal Opportunities Implications NO	Risk Management Implications NO

Date of meeting: 3 July 2012

ANNUAL TREASURY REPORT 2011/2012

<p>Summary</p> <p>The Council has formally adopted the Chartered Institute of Public Finance and Accountancy’s Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.</p> <p>The primary requirements of the Code are:</p> <ul style="list-style-type: none"> • Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities. • Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives. • 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. • 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. • Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named individual which is the Deputy Chief Executive, Executive Director for Finance and Resources.

This Annual Treasury Report looks backwards at 2011/2012 and covers:

- the Council's overall borrowing need
- the Council's treasury position/performance;
- the strategy for 2011/2012;
- the economy in 2011/2012;
- borrowing rates in 2011/2012;
- the borrowing outturn for 2011/2012;
- compliance with treasury limits and Prudential Indicators;
- investment rates for 2011/2012;
- investment outturn for 2011/2012;
- debt rescheduling;

During the year the Council maintained a cautious approach to investment and management of debt. Investments returned a percentage of between 0.81% and 1.95% exceeding the 7 day LIBID benchmark rate of 0.48%. Interest on debt averaged 2.54% in 2011/2012.

Recommendations

Cabinet is asked to note the report.

Reason for the Decision

The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. Introduction and Background

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Council's Code of Practice on Treasury Management requires that Council consider an Annual Treasury Report looking back at the previous years performance.
- 1.2 This Annual Treasury Report covers:
 - a. the Council's overall borrowing need
 - b. the Council's treasury position/performance;
 - c. the strategy for 2011/2012;
 - d. the economy in 2011/2012;
 - e. borrowing rates in 2011/2012;
 - f. the borrowing outturn for 2011/2012;
 - g. compliance with treasury limits and Prudential Indicators;
 - h. investment rates 2011/2012;
 - i. investment outturn for 2011/2012;
 - j. debt rescheduling;

2. The Council's Overall Borrowing Need

- 2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2011/2012 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 2.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.
- 2.3 **Reducing the CFR** – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
 - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
- 2.4 The Council's 2011/2012 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2011/2012 on 8th March 2011.

AGENDA ITEM 12

- 2.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes leasing schemes on the balance sheet, which increase the Council's borrowing need, the CFR.

CFR	31 March 2011 Actual £000's	31 March 2012 Actual £000's
Opening Balance	15,025	14,679
Add unfinanced capital expenditure	71	(130)
Less MRP	419	416
Less finance lease repayments	2	2
Closing CFR	14,679	14,135

- 2.6 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

- 2.7 **Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/2012 plus the expected changes to the CFR over 2012/13 and 2013/14. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/2012. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2011 Actual £million	31 March 2012 Actual £million
Borrowing	15.42	17.62
Investments	26.57	25.73
Net Position	(11.15)	(8.11)
Closing CFR	14.68	14.14

AGENDA ITEM 12

- 2.8 **The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2011/2012 the Council has maintained gross borrowing within its authorised limit.
- 2.9 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.
- 2.10 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (Council Tax and Government Grant).

	2011/2012
Authorised limit	£35m
Maximum gross borrowing position	£32m
Operational boundary	£32m
Average gross borrowing position	£13m
Financing costs as a proportion of net revenue stream	3.59%

3. Treasury Position/Performance as at 31 March 2012

- 3.1 The Council’s debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council’s Treasury Management Practices. At the beginning and the end of 2011/2012 the Council’s treasury position was as detailed in the table below:

AGENDA ITEM 12

	31st March 2011 Principal £ million	Total £ million	Rate/ Return %	31st March 2012 Principal £ million	Total £ million	Rate/ Return %
Borrowing:						
Fixed Rate Funding:						
- PWLB	1.70		2.92	1.50		2.92
- Market	<u>10.0</u>	11.70	3.81	<u>10.0</u>	11.50	3.81
Variable Rate Funding:						
- PWLB	0.00			0.00		
- Market	<u>3.72</u>	<u>3.72</u>	<u>0.48</u>	<u>6.12</u>	<u>6.12</u>	<u>0.37</u>
Total Debt		15.42	2.92		17.62	2.54
*Investments:						
- In-House	16.30		1.57	25.73		1.43
- With Manager	<u>10.27</u>		<u>0.94</u>	<u>0.00</u>		<u>0.00</u>
Total Investments		26.57	1.33		25.73	1.43
Net Position		(11.15)			(8.11)	

*see section 10.13 for explanation of movement, of investment balances

3.2 The maturity structure of the debt portfolio was as follows:

	31 March 2011 Actual £million	31 March 2012 Actual £million
Under 12 months (cash flow)	3.7	6.1
12 months and within 24 months	0.0	0.0
24 months and within 5 years	0.0	0.0
5 years and within 10 years	1.7	1.5
10 years and above	10.0	10.0

3.3 The maturity structure of the investment portfolio was as follows:

	31 March 2011 Actual £million	31 March 2012 Actual £million
Longer than 1 year	0.0	0.0
Under 1 year	15.5	25.7
Temporary Cash Flow	0.8	0.0
Fund Managers (all investments less than 1 year) – refer to section 10.5 to 10.7	10.3	0.0
Total:	26.6	25.7

3.4 As part of the Council strategy in 2011/2012, the Council would avoid locking into longer term deals while investment rates were down at historically low levels unless exceptionally attractive rates were available which would make longer term deals worthwhile. This was the case and no longer term deals were made.

4. The Strategy for 2011/2012

4.1 Sector, the Council's treasury advisors, recommended a treasury strategy for 2011/2012, based on their view that the expectation for interest rates anticipated low but rising Bank Rate (starting in quarter 4 of 2011) with similar gradual rises in medium and longer term fixed borrowing rates over 2011/12. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

The actual movement in gilt yields meant that PWLB rates fell sharply during the year and to historically very low levels. This was caused by a flight to quality into UK gilts from EU sovereign debt and from shares as investors became concerned about the potential for a Lehmans type crisis of financial markets if the Greek debt crisis were to develop into a default and exit from the Euro.

4.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and reduce counterparty risk.

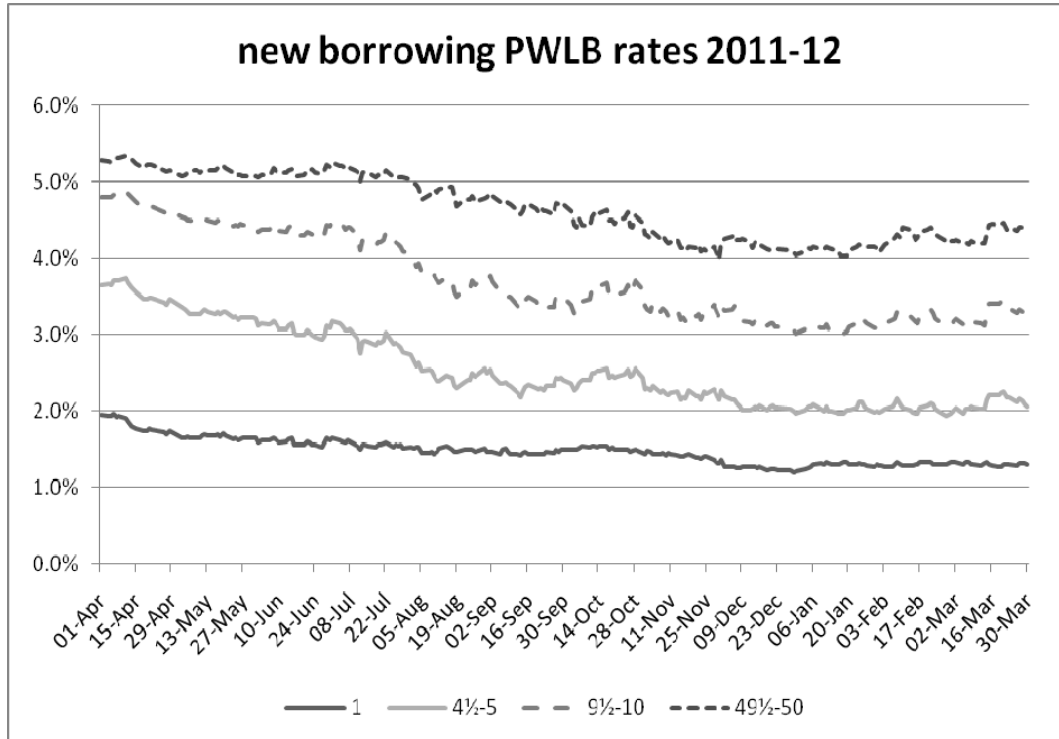
4.3 The actual movement in interest rates broadly followed the expectations.

5. The Economy 2011/2012

- 5.1 The original expectation for 2011/12 was that Bank Rate would start gently rising from quarter 4 2011. However, economic growth (GDP) in the UK was disappointing during the year due to the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). The EU sovereign debt crisis grew in intensity during the year until February when a refinancing package was eventually agreed for Greece. This weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October and another £50bn in February. Bank Rate therefore ended the year unchanged at 0.5% while CPI (consumer price index) inflation peaked in September at 5.2%, finishing at 3.5% in March, with further falls expected to below 2% over the next two years. Deposit rates picked up in the second half of the year as competition for cash increased among banks.
- 5.2 Gilt yields fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of QE during the year, combined to depress PWLB rates to historically low levels.
- 5.3 Risk premiums were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the credit ratings of many banks and sovereigns, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.
- 5.4 The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. The USA and France lost their AAA ratings from one rating agency during the year.

6 Borrowing Rates in 2011/2012 – (Rates based on PWLB maturity profiles)

6.1 **PWLB borrowing rates** - the graph and table for PWLB maturity rates below show, for a selection of maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year.



PWLB BORROWING RATES 2011/12 for 1 to 50 years									
	1	1.5-2	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
01/04/2011	1.950%	2.420%	2.870%	3.280%	3.650%	4.800%	5.360%	5.280%	1.570%
31/03/2012	1.290%	1.420%	1.590%	1.810%	2.050%	3.200%	4.310%	4.350%	1.560%
HIGH	1.970%	2.470%	2.930%	3.350%	3.730%	4.890%	5.430%	5.340%	1.590%
LOW	1.190%	1.320%	1.500%	1.710%	1.940%	3.010%	3.940%	3.980%	1.560%
Average	1.466%	1.693%	1.958%	2.243%	2.533%	3.702%	4.610%	4.635%	1.561%
Spread	0.780%	1.150%	1.430%	1.640%	1.790%	1.880%	1.490%	1.360%	0.030%
High date	06/04/2011	06/04/2011	06/04/2011	06/04/2011	11/04/2011	11/04/2011	11/04/2011	11/04/2011	05/04/2011
Low date	29/12/2011	30/12/2011	30/12/2011	27/02/2012	27/02/2012	30/12/2011	18/01/2012	30/11/2011	15/04/2011

7 Borrowing Outturn for 2011/2012

7.1 The Council Strategy was based on the following views:

- *The Council will only borrow if it is financially advantageous to do so.*
- *The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years*
- *Temporary borrowing from the money markets or other local authorities*
- *PWLB (Public Works Loan Board) variable rate loans for up to 10 years*
- *Short dated borrowing from non PWLB below sources*
- *Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.*
- *PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt*

7.2 *In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:*

- *if it were felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.*

AGENDA ITEM 12

7.3 Borrowing as at 31st March 2012:

Start Date	End Date	Loan No	Value £	Institution	Rate	Term
11.06.07		3645	20,000	Kings Lynn Festival	0.00%	7 day notice
22.03.12	16.04.12	3768	4,600,000	Worcestershire CC	0.32%	Short Term
26.03.11	16.04.12	3769	1,500,000	Greater Manchester Pension Fund	0.52%	Short Term
Total Short Term			6,120,000			
22.03.07	21.03.77	5888	5,000,000	Barclays – fixed rate LOBO (lenders option, borrowers option)	3.81%	Long Term – fixed for initial 10 year period, and option to change every 5 years thereafter
12.04.07	11.04.77	5887	5,000,000	Barclays – fixed rate LOBO (lenders option, borrowers option)	3.81%	Long Term - fixed for initial 10 year period, and option to change every 5 years thereafter
15.09.09	14.09.19	495951	1,500,000	PWLB	2.92%	Long Term – fixed for 10 years
Total Long Term			11,500,000			
Total Borrowing			17,620,000			

The table at 3.1 shows average rate of debt as being 2.54%.

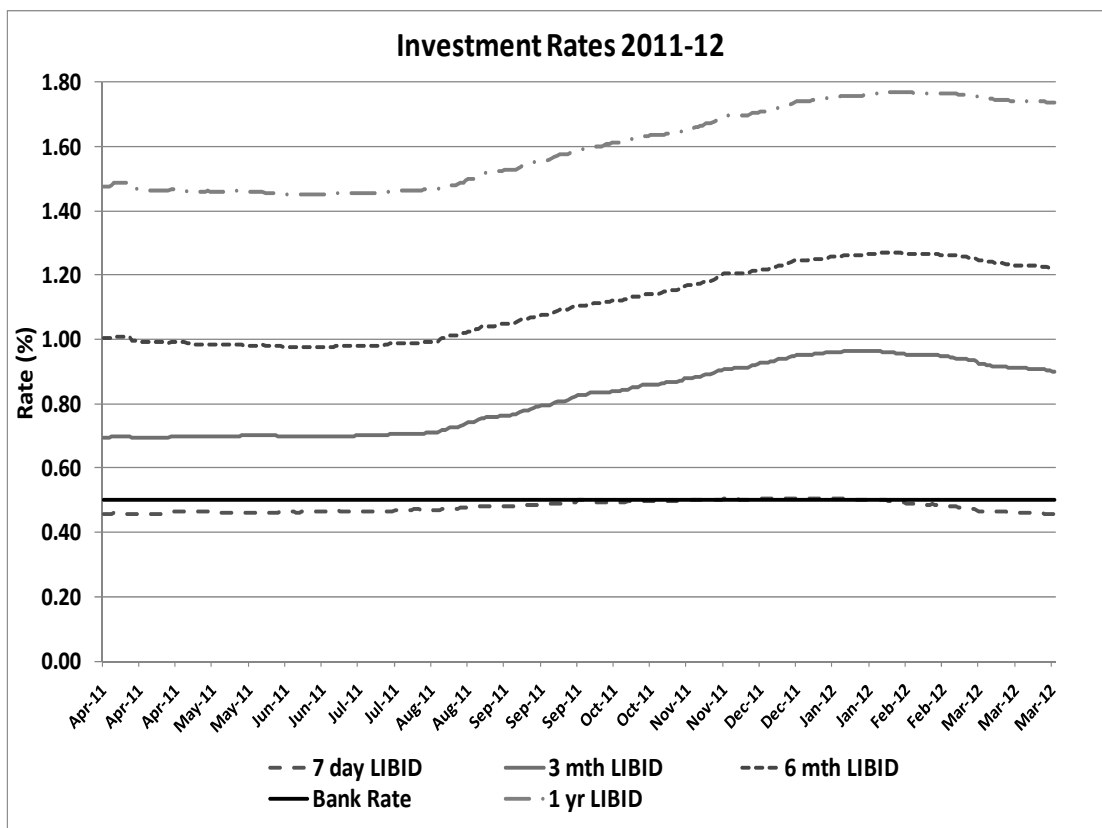
8. Compliance with Treasury Limits

- 8.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The outturn for the Prudential Indicators (*is shown in appendix 1*).

9. Investment Rates in 2011/2012

9.1 The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. The European Central Bank's actions to provide nearly €1 trillion of 1% 3 year finance to EU banks eased liquidity pressures in the EU and investment rates eased back somewhat in the quarter 1 of 2012. This action has also given EU banks time to strengthen their balance sheets and liquidity positions on a more permanent basis. Bank Rate remained at its historic low of 0.5% throughout the year while market expectations of the imminence of the start of monetary tightening was gradually pushed further and further back during the year to the second half of 2013 at the earliest..

9.2 Overlaying the relatively poor investment returns were the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in a second rescue package for Greece in quarter 1 2012. Concerns extended to the potential fallout on the European banking industry if the crisis could have ended with Greece leaving the Euro and defaulting.



10. Investment Outturn for 2011/2012

10.1 **Internally Managed Investments** - The Council manages its investments in-house and invests with the institutions listed in the Council's approved lending list. The Council invests for a range of periods, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. During the year, all investments were made in full compliance with this Council's treasury management policies and practices.

- 10.2 **Externally Managed Investments** – At the start of 2011/2012, the Council had investments managed externally by Investec. The fund management agreement between the Council and the Fund Managers defines the limits for maximum weighting in gilts/bonds and maximum duration of the fund. Counterparty criteria and exposure limits are also pre-defined therein. These would be reduced if needed to fund the current Capital Programme. The fund managers proactively manage the investments to provide an above benchmark performance.
- 10.3 **Investment Strategy** - The expected short-term investment strategy for in-house managed funds was:
- 10.4 *In-house funds: The Council's in-house managed funds are currently made up of both cash-flow derived and longer term investments. Investments will accordingly be made with reference to the core balance, cash flow requirements and the need to finance the capital programme. This means that both the outlook for short-term interest rates (i.e. rates for investments up to 12 months) and longer term interest rates (over one year) will be considered when making investments.*
- 10.5 *Externally managed funds: The Council has a Discretionary Fund Management Agreement with Investec Asset Management. The inception date of the agreement was 1 April 1998 and termination of the agreement by the Council can be made at any time by written notice. The value held by the fund managers as at 29 January 2011 was £13,745,382. Performance since year end 2009/2010 shows a gross rate of return of 0.88% and a net rate of 0.79% after deduction of management fees. The management fees for 2011/2012 are £21,880.*
- 10.6 *The Review of Treasury Management Arrangements report sets out recommendations for the Council to terminate its arrangement with Investec, and makes the following changes to the investment strategy listed briefly below. This will provide a saving of £21,880 in management fees and ensure that the investment portfolio is managed in house:*
- *The Council should maintain a diversification of at least 5 counterparties*
 - *Money Market Funds to be opened and utilised, which are AAA rated with the lowest volatility rating. The funds offer higher security, instant access and diversification amongst a range of different asset classes and counterparties.*
 - *The Council invests a greater amount with higher credit rated counterparties.*
 - *The Council to consider widening their lending list, increasing the number of counterparties both in the UK and foreign market.*
 - *The Council to introduce group limits to reduce the maximum exposure to one individual group, to minimise risk.*
 - *The Council consider using alternative investment vehicles, i.e Multilateral Development Bank Bonds.*
 - *Treasury Management Practices (TMP's) to be amended to incorporate these changes.*

AGENDA ITEM 12

- 10.7 *As stated in the Review of Treasury Management Arrangement report, it will be necessary to discuss with Investec the management fees payable for 2010/2011 on a phased withdrawal of funds basis, in order to prevent unnecessary fees on early withdrawal of investments. The termination of the management agreement should take place in its entirety in September 2011.*
- 10.8 *Bank Rate has been unchanged at 0.50% since March 2009. Bank rate is forecast to commence rising in quarter 4 of 2011 and then to rise steadily from thereon. There is downside risk to these forecasts if economic growth is weaker than expected. There is also a risk that the MPC could decide to start raising Bank Rate in quarter 3 of 2011 if it feels it needs to defend its credibility in containing inflation and the inflation expectations of the public.*
- 10.9 *The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this council.*
- 10.10 *For 2011/12, it is suggested by the Councils advisors to budget for an investment return of 0.70% on investments placed during the year and assumes that Bank Rate starts increasing from November 2011. There is downside risk to this forecast i.e. that the start of increases in Bank Rate is delayed even further if economic growth is weaker than expected. There is also upside risk if the MPC decides it needs to start increasing Bank Rate in Q3 2011 in order to maintain its credibility in containing inflationary pressures.*
- 10.11 *For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (over night to three months) in order to benefit from the compounding of interest.*
- 10.13 **Investments for 2011/2012** - Detailed below is the result of the investment strategy undertaken by the Council.

	Investments as at 1 April 2011 (£millions)	Investments as at 31 March 2012 (£millions)	Rate of Return (net of fees) %	Benchmark Return %
Internally Managed	16.3	25.70	1.43	0.48
Externally Managed	10.27	0.00	0.00	0.00

AGENDA ITEM 12

Investments as at 31st March 2012:

Institution	Principal	Start Date	End Date	Rate %	Ratings
Newcastle City Council	1,500,000	09/05/2011	08/05/2012	1.70	AAA
Santander UK	2,400,000	10/02/2012	10/05/2012	1.40	A+
Natwest (Fixed)	3,000,000	12/05/2011	11/05/2012	1.52	A
Nationwide Building Society	2,600,000	09/03/2012	11/06/2012	1.00	A+
Nationwide Building Society	2,000,000	12/03/2012	15/06/2012	1.00	A+
Natwest (Fixed)	2,000,000	27/07/2011	26/07/2012	1.49	A
Bank of Scotland	2,000,000	24/11/2011	22/11/2012	2.37	A
Bank of Scotland	3,000,000	28/11/2011	26/11/2012	2.37	A
Newcastle City Council	3,900,000	20/06/2011	20/12/2012	1.55	AAA
Natwest (Call)	370,000	12/03/2012		0.90	A
Natwest (Call)	630,000	15/03/2012		0.90	A
Natwest (Call)	1,000,000	16/03/2012		0.90	A
Primerate Money Market Fund	1,300,000	15/03/2012		0.80	AA-
Total	25,700,000				

- 10.14 The benchmark rate is derived from the 7 day LIBID (London Interbank Bid Rate) rate. The Council exceeded this rate, as investments were tied in for longer periods to take advantage of higher interest returns while the bank rate remained at 0.50%.
- 10.15 In addition, the Council utilised business reserve accounts which were providing higher returns from those available on the markets, due to problems with the worlds' financial markets. The Council targeted investments with banks which met their minimum criteria counterparty limits. If changes in ratings occurred to banks where funds were deposited, this was noted on Monthly Monitoring reports and reviewed.
- 10.16 In addition the Council also ensured priority was given to security and liquidity in order to reduce counterparty risk. This was achieved by adopting Sector's methodology of using ratings from three agencies to provide the core element of the credit watch service with outlooks and credit default swaps spreads to give early warning signs of changes, and sovereign ratings to select counterparties.
- 10.17 No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.
- 10.18 In addition to this, a report was approved by Council on the 8th March 2011, approving the termination of the Fund Managers arrangement with the Council. This was part of the Accountancy Service Review to achieve annual savings of £22,400 on external fees. Higher rates of return could be achieved with in-house investments 2011/2012. The report also incorporated changes to the Councils investment strategy, which detailed a review of the Councils lending lists, so increased funds could be accommodated in-house.

10.19 Fund Managers investments would gradually be returned to the Council as they mature to prevent any early payment penalties in 2012. Therefore, as shown in table 10.13, in-house investments increased at the end of 2012 due to funds being returned from the Fund Manager.

11.0 Debt Rescheduling

11.1 The Authority did not reschedule any debt during the year.

12.0 Summary

12.1 In summary the Council:

- Did not pursue any debt rescheduling as long term loans were reviewed against future long term rates and early repayment penalties, which were proven to be disadvantageous.
- A lending list review was undertaken to ensure security and liquidity were maintained, whilst increasing funds held in-house due to funds being returned from Fund Manager and higher rates of interest being achieved.
- Took advantage of higher business reserve account rates on short term investments, and tied in rates for fixed term investments to take advantage of higher interest rate returns (while bank rate remained at 0.50%).
- Ensured counterparty listings on our lending lists were maintained and updated regularly, and reported on monthly monitoring reports if changes occurred to any banks where funds were deposited.
- In addition, the Council ensured priority was given to security and liquidity in order to reduce counterparty risk. This was achieved by adopting Sector's methodology of using ratings from three agencies to provide the core element of the credit watch service with outlooks and credit default swaps spreads to give early warning signs of changes, and sovereign ratings to select counterparties.

APPENDIX 1: PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2010/11	2011/2012
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT	£'000	£'000
	Actual	Actual
Capital Expenditure	4,841	5,544
Ratio of financing costs to net revenue stream	2.42%	2.50%
Net borrowing requirement		
brought forward 1 April	20,900	15,420
carried forward 31 March	15,420	17,620
in year borrowing requirement	(5,480)	2,200
Net Investment		
brought forward 1 April	26,937	26,567
carried forward 31 March	26,567	25,731
in year investment	(370)	(836)

AGENDA ITEM 12

PRUDENTIAL INDICATOR	2010/11	2011/2012
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000
	Actual	Final
Authorised limit for external debt -		
Borrowing	35,000	35,000
Operational boundary for external debt -		
Borrowing	32,000	32,000
Actual External Debt	15,420	17,620
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	32,000	32,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	22,000	22,000
Upper limit for total principal sums invested for over 364 days		
(per maturity date)	No limit	No limit

Maturity structure of fixed rate borrowing during 2011/2012	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

AUDIT AND RISK COMMITTEE WORK PROGRAMME 2012/2013

29 May 2012

- Internal Audit Plan 2011/2012 – Progress report for the quarter January to March 2012
- Benefit Investigations Unit Annual Report
- Corporate Risk Monitoring Report (October 2011 to March 2011)

14 June 2012

- Final Accounts and Statement of Accounts for year ended 31 March 2012: (Revenue Outturn 2010/2011, Capital Programme and Resources 2011/2015)

26 June 2012

- Internal Audit Annual Report 2011/2012
- Review of the Effectiveness of the Audit and Risk Committee
- Review of the Effectiveness of Internal Audit Service

Cabinet Report: Annual Treasury Report 2011/2012

24 July 2012 (Meeting to be held in the Chapel at Mintlyn Crematorium)

- Internal Audit Plan 2011/2012 – Progress report for the quarter April to June 2012

28 August 2012**11 September 2012**

Special Meeting – to consider the Statement of Accounts 2011/2012
Annual Governance Statement

25 September 2012

23 October 2012

Please note that Treasury Management Training will take place from 5 pm until 6.15 pm prior to the formal meeting to commence at 6.30 pm

- Internal Audit Plan 2011/2012 – Progress report for the quarter July to September 2012

27 November 2012

- Benefit Investigations Unit Half-Year Report – S Chapman
- Business Continuity – annual update

2 January 2013

- Annual Audit Letter – to be presented by the Council's External Auditor
- Internal Audit – Strategic Audit Plan 2013/14

26 February 2013

- Internal Audit Plan 2011/2012 – Quarterly Progress Report from October to December 2012

26 March 2013 (Meeting to be held in Hunstanton)

- Business Continuity – Annual Update
- BCKL&WN Audit Plan 2013/2014 (external)

23 April 2013

- Corporate Risk Monitoring Report (October 2012 to March 2013)