Borough Council of
King's Lynn &
West Norfolk

RESOURCES AND PERFORMANCE – AUDIT AND RISK COMMITTEE

Tuesday 28 October 2014
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

King's Court, Chapel Street, King's Lynn, Norfolk, PE30 1EX.
Telephone: 01553 616200
Fax: 01553 691663

17 October 2014

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 28 October 2014,** at **6.00 pm** in **The Committee Suite, King's Court, Chapel Street, King's Lynn, Norfolk** to discuss the business shown below.

Yours sincerely

Chief Executive

A G E N D A

1. **Suspension of Standing Order 36 – Recording or Broadcasting of Meetings**

   In order to comply with Statutory Instrument 2014 no 2095, The Openness of Local Government Bodies Regulations 2011, Standing Order 36 is suspended for the duration of the meeting.

2. **Apologies for absence**

   To receive any apologies for absence.

3. **Minutes**

   To approve the minutes of the Resources and Performance – Audit and Risk Committee meeting held on 22 July 2014 and 8 September 2014 (previously circulated).

4. **Declarations of Interest**

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

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

5. 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.

6. 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.

7. Chairman's Correspondence (if any)

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

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

At the Cabinet meeting held on 29 July 2014 the following responses were made to the recommendations from the Resources and Performance Panel – Audit and Risk Committee meeting held 22 July 2014, on the following item:-.

Review of the Effectiveness of the Audit and Risk Committee

RESOLVED: That Cabinet be informed that the Resources and Performance Panel – Audit and Risk Committee supports the recommendation as set out in the report to Cabinet:

To note the contents of the report.

Cabinet Response: "The Panel's recommendations were duly taken into account when Cabinet considered the item."

At the Cabinet meeting held on 10 September 2014 the following responses were made to the recommendations from the Resources and Performance Panel – Audit and Risk Committee meeting held 8 September 2014, on the following items:-.

Statement of Accountants 2013/2014 Report to those charged with Governance (ISA UK&I) 260)

RESOLVED: That Cabinet be informed that the Resources and Performance Panel – Audit and Risk Committee supports the recommendation as set out in the report to Cabinet:

It is recommended that Cabinet:

1) Approve the authority for any changes required to the Statement of Accounts is delegated to the Chief Financial Officer, in consultation with the Leader of the Council, to authorise amendments and if necessary present an updated Statement to Council.

2) Notes the comments of the auditor in the ISA260.

It is recommended that Council:

1) Approve the Statement of Accounts for 2013/2014.

2) Notes the comments of the Auditor in the ISA260.

Cabinet Response: "The Panel's recommendations were duly taken into account when Cabinet considered the item."

Annual Governance Statement 2013/2014

RESOLVED: That Cabinet be informed that the Resources and Performance Panel – Audit and Risk Committee supports the recommendation as set out in the report to Cabinet:

It is recommended that the Annual Governance Statement for the 2013/2014 year as attached be approved for adoption and that the Leader of the Council and the Chief Executive sign accordingly.

Cabinet Response: "The Panel's recommendations were duly taken into account when Cabinet considered the item."

9. Mid Year Review Treasury Report 2014/2015 (pages 1 to 17)

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

10. External Quality Assessment – Compliance with the Public Sector Internal Audit Standards (pages 18 to 35)

Members are invited to note the report and confirm the Audit Manager's responses to the recommendations made.

11. **<u>Audit and Risk Committee Work Programme</u>** (pages 36 to 37)

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

12. **<u>Date of Next Meeting</u>**

To note that the next meeting of the Resources and Performance - Audit and Risk Committee will take place on **Tuesday 25 November 2014.**

To: **Panel Members –** Councillors P Beal (Chairman), H Humphrey (Vice-Chairman), J Collop, I Gourlay, M Langwade, C Manning, Mrs K Mellish, A Morrison, J M Tilbury, A Tyler, D Tyler, G Wareham, T de Winton, A Wright and Mrs S Young

Portfolio Holders:

<u>Agenda Items 8 and 9</u>

Councillor N Daubney, Leader

Appropriate Officers: The following officers are invited to attend in respect of the Agenda item shown against their name:

Item 8: Lorraine Gore, Chief Financial Officer
Item 9: Kate Littlewood, Audit Manager

Chief Executive

Deputy Chief Executive and Executive Director, Finance and Resources

All other Executive Directors

Press

REPORT TO CABINET

Open	Would any decisions proposed :			
Any especially affected Wards **None**	(a) Be entirely within Cabinet's powers to decide YES (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: cllr.nick.daubney@west-norfolk.gov.uk	Other Cabinet Members consulted: None Other Members consulted: None			
Lead Officer: Toby Cowper E-mail: toby.cowper@west-norfolk.gov.uk Direct Dial: 01553 616523	Other Officers consulted: Chief Financial Officer and Management Team			
Financial Implications YES	Policy/Personnel Implications NO	Statutory Implications (incl S.17) YES	Equal Opportunities Implications NO	Risk Management Implications YES

Date of meeting: 4 November 2014

MID YEAR REVIEW TREASURY REPORT 2014/2015

Summary

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011) and remains fully compliant with its requirements.

One of the primary requirements of the Code is:

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.

The Mid -Year Review Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2014/2015
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy 2014/2015
- The Council's capital expenditure (prudential indicators)
- A review of the Council's investment portfolio for 2014/2015
- A review of the Council's borrowing strategy for 2014/2015
- A review of any debt rescheduling undertaken during 2014/2015
- A review of compliance with Treasury and Prudential Limits for 2014/2015

Recommendations

1. Cabinet is asked to note the report and the treasury activity.

2. As part of the budget process and setting of the Treasury Management Strategy for 2015/2016 it is suggested that Cabinet ask officers to bring forward schemes that could generate higher levels of return

Reason for the Decision

The Council must make a Mid -Year Review of its Treasury operation, as part of the CIPFA code of Practice.

1. Background

1.1 The Council operates a balanced budget, which broadly means cash raised during the year and the use of reserves and balances will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses and investing, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 As a consequence treasury management is defined as:

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

2. Introduction

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

The primary requirements of the Code are as follows:

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

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

- An economic update for the first six months of 2014/15;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2014/15;
- A review of the Council's borrowing strategy for 2014/15;
- A review of any debt rescheduling undertaken during 2014/15;
- A review of compliance with Treasury and Prudential Limits for 2014/15.

3 Economic update

3.1 Economic performance to date and outlook

After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.8% in Q1 and Q2 2014 (annual rate 3.2% in Q2), it appears very likely that strong growth will continue into 2014 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to the manufacturing sector and exporting, both of which need to substantially improve on their recent lacklustre performance. This strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. This in turn, means that there needs to be a major improvement in labour productivity which has languished at dismal levels since 2008. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.5% in May, the lowest rate since 2009 (1.6% in July). Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q1 or Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

3.4 **Capita Asset Services interest rate forecast (August 2014)**

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%
5yr PWLB rate	2.70%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%
10yr PWLB rate	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%
25yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%
50yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%

Capita Asset Services undertook a review of its interest rate forecasts in mid August, after the Bank of England's Inflation Report. By the beginning of September, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, had caused a further flight into safe havens like gilts and depressed PWLB rates further. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 1 of 2015.

4 Treasury Management Strategy Statement and Annual Investment Strategy update

4.1 The Treasury Management Strategy Statement (TMSS) for 2014/2015 was approved by this Council on 4 March 2014. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity

4.2 The Council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to only invest with highly credit rated financial institutions, using Capita Asset Services suggested creditworthiness approach, including sovereign credit rating and credit default swap (CDS) overlay information provided by Capita Asset Services.

4.3 A breakdown of the Council's investment portfolio is shown in Section 6 and Appendix 1 of this report.

4.4 Borrowing during the first six months of the year has been in line with the strategy, and there have been no deviations from the strategy.

4.5 As outlined in Section 3 above, there is still considerable uncertainty in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 4 March 2014 is still fit for purpose in the current economic climate.

5 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

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

5.1 Prudential Indicator for Capital Expenditure

The capital programme approved by Council on 5 February 2014 was updated for rephasing and amendments as part of the closedown of the accounts 2013/2014. The updated estimates were approved by Council on 11 June 2014 and are shown in Table 1 below. The capital programme 2014/2017 has been revised as reported in the Monthly Monitoring reports.

Table 1

Service Head	**Capital Programme 2014/2015 (Council 5 February 2014)**	**Revised Capital Programme 2014/2015 (September Monitoring)**	**Expenditure as at 30 September 2014**
	£'000	**£'000**	**£'000**
Major Projects	11,131	12,619	2,825
Central and Community Services	1,296	1,618	553
Chief Executive	95	81	9
Commercial Services	1,270	2,195	366
Environment and Planning	43	43	0
Resources	625	860	157
Total Capital Programme	**14,460**	**17,416**	**3,910**

5.2 Changes to the Financing of the Capital Programme

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

Table 2

Capital Expenditure Financed by	**Capital Programme 2014/2015 (Council 5 February 2014)**	**Revised Capital Programme 2014/2015 (September Monitoring)**
	£'000	**£'000**
Total spend	**14,460**	**17,416**
Financed by:		
Capital receipts	(11,483)	(11,754)
Capital grants and Contributions	(2,150)	(2,149)
Capital reserves	(1,152)	(1,985
Total resource	**(14,785)**	**(15,888)**
Borrowing need	325	(1,528)
Total Financing	**(14,460)**	**(17,416)**

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

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

Prudential Indicator – Capital Financing Requirement

The original estimated CFR for 2014/2015 included in the Treasury Management Strategy Statement 2014/2015 was based on an estimated outturn CFR for 2013/2014 of £16.9m, the actual outturn was £14.8m. The revised CFR for 2014/2015 after rephasing from 2013/2014 and revised capital resources, is £16.3m. The 2014/2015 CFR incorporates the impact of borrowing to finance the Housing Joint Venture.

Prudential Indicator – External Debt / the Operational Boundary

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

- the Authorised Limit for External Debt is the maximum borrowing that the Council can incur in a set period further prudential indicator controls the overall level of borrowing. The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements.

- the Operational Boundary for External Debt is a working practice limit that is set slightly lower than the Authorised Limit. In effect the authorised limit includes a degree of contingency in case of circumstances arising that take the limit above the operational limit. It allows business to continue giving time for Council to be advised in case of the need for more permanent changes to the limits.

Table 3

	2014/15 Original Estimate £m	Current Position £m	2014/15 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR	15.0	14.8	16.3
Prudential Indicator – External Debt / the Operational Boundary			
Authorised Limit for external debt	30.0	30.0	30.0
Operational Boundary for external debt	25.0	25.0	25.0
Borrowing	20.4	14.6	20.4

These borrowing limits will have to be revised should the 'Major Housing' project be given approval by Cabinet in the new year.

5.4 Limits to Borrowing Activity

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

Table 4

	2014/15 Original Estimate £'000s	Current Position 30 September 2014 £'000s	2014/15 Revised Estimate £'000s
Gross borrowing	20,414	14,600	20,414
Less investments	(27,375)	(27,952)	(27,375)
Net borrowing	**(6,961)**	**(13,352)**	**(6,961)**
CFR (year end position)	15,010	14.783	16.311

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

5.6 Nar Valley Park Phase 1 sales as at 19 September 2014, 20 units out of the 54 total have been reserved. 8 of these have been sold to Freebridge Community Housing. The other 12 are private sale units, 7 of these buyers have taken advantage of the Help To Buy Scheme. Current total sales: £2.5m.

6 Investment Portfolio 2014/2015

6.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the introduction of the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

6.2 The Council held £27.95m of investments as at 30 September 2014 (£31.33m at 31 March 2014) and the investment portfolio yield for the first six months of the year is 0.92% against a benchmark 0.36% (7 day LIBID – London Interbank Bid Rate).

6.3 A full list of investments held by the Council as at 30th September 2014, is shown in Appendix 1, and summarised in Table 5 below:

Table 5

Institution	Principal	Start Date	End Date	Rate %
Bank of Scotland	2,000,000	22/11/2013	01/12/2014	1.00
Bank of Scotland	3,000,000	26/11/2013	03/12/2014	1.00
Bank of Scotland	2,000,000	11/04/14	13/04/2015	0.98
Barclays	2,400,000	12/11/2012		0.65
Barclays	2,600,000	20/12/2012		0.65
Glasgow City Council	3,000,000	12/11/2013	12/11/2015	0.95
Cheshire West and Chester Council	2,000,000	20/01/2014	20/01/2016	1.10
Goldman Sachs International Bank	2,000,000	22/09/2014	22/01/2015	0.59
Norfolk & Waveney Enterprise Services Ltd	500,000	27/03/2014		1.80
Wyre Forest District Council	2,000,000	14/07/2014	14/07/2016	0.95
King & Shaxson - RBS	2,000,000	28/08/2014	30/08/2016	1.68
Newcastle City Council	2,000,000	04/08/2014	04/08/2016	1.00
Roydon Parish Council	2,667	19/02/2013	01/04/2016	1.50
BNP Parabis	2,450,000	01/09/2014		0.44
Total	**27,952,667**			**0.92**

6.4 The average level of funds available for investment purposes in the first six months of 2014/15 was £2million (per week). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council holds £25.7million core cash balances for investment purposes.

6.5 The Council would receive annual interest of £236,000 based on holding all the £25.7m core cash balances in traditional investments at an average interest rate of 0.92% per annum. The Council could consider other options for investment including property investments as an alternative to the traditional investments. These would be assessed in conjunction with the Council's treasury advisors and require separate reports to Cabinet but could achieve higher rates of return. If a quarter of the funds were invested in this way it is estimated that a return of at least 4% could be achieved, which would together with the 0.92% return on the remaining traditional investments generate revenue income of around £436,000 per annum, an additional £600,000 over the medium term financial plan.

As part of the budget process and setting of the Treasury Management Strategy for 2015/2016 it is suggested that Cabinet ask officers to bring forward schemes that could generate higher levels of return.

6.6 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2014/15.

6.7 The Council's budgeted investment return for 2014/15 is £171,000 and the projected performance for the year is £224,400 which is above expectations. The Council's budgeted borrowing costs for 2014/2015 are £510,000 and projected outturn for the year is £461,900. Overall it is anticipated there is net impact of £101,500 on the Council's budget. The cost of borrowing and investment returns are included in the financing adjustment element of the Council's budget, which is monitored and variances reported in the overall Budget Monitoring Report.

6.8 Investment Counterparty criteria

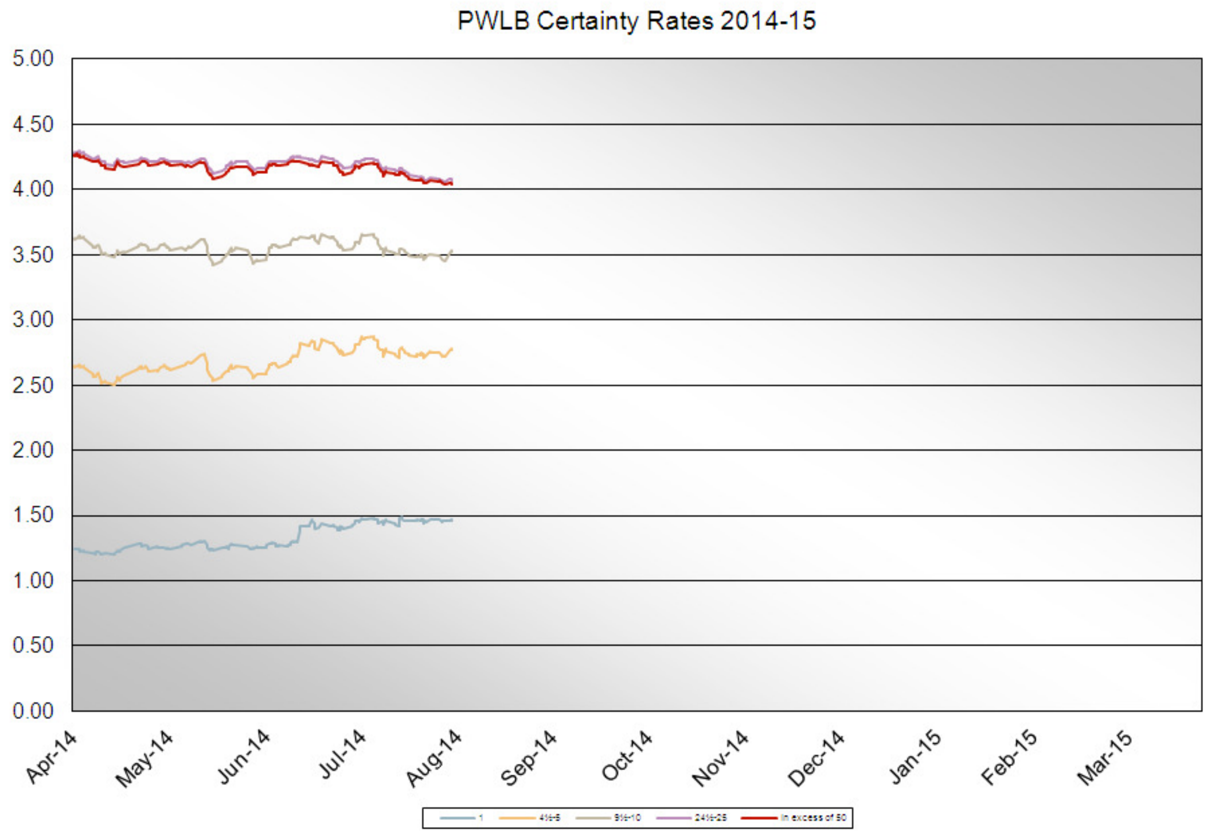
The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement 2014/2015 is meeting the requirement of the treasury management function.

7 External Borrowing 2013/2014

7.1 The Council's capital financing requirement (CFR) for 2014/15 is estimated to be £16.6m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The use of cash flow funds in lieu of borrowing is a prudent and cost effective approach in the current economic climate. A full list of borrowings made by the Council as at 30th September 2014 is shown in Appendix 2.

7.2 As outlined below, the general trend has been a decrease in interest rates during the six months, across longer dated maturity bands, but a rise in the shorter maturities, reflecting in part the expected rise in the Bank rate.

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



8 Debt Rescheduling

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

9 Compliance with Treasury and Prudential Limits

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

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

10. Financial Implications

10.1 The financial implications of the borrowing and investment strategy are reflected in the financing adjustment figure included in the Financial Plan 2014/2018 approved at Cabinet on 27 February 2014 and updated as reported in the Budget Monitoring report.

11. Risk Management Implications

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

12 Policy Implications

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

13 Statutory Considerations

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

14 Access to Information

The Budget 2014/2018 – A Financial Plan
Capital Programme 2013/2017
Treasury Management Strategy and Annual Investment Strategy 2014
Budget Monitoring reports 2014/2015
Sector Monthly Investment Analysis Review
Treasury Monthly Monitoring reports

Appendix 1

Investment Portfolio as at 30 September 2014

Institution	Principal	Start Date	End Date	Rate %	Ratings
Bank of Scotland	2,000,000	22/11/2013	01/12/2014	1.00	A
Bank of Scotland	3,000,000	26/11/2013	03/12/2014	1.00	A
Bank of Scotland	2,000,000	11/04/14	13/04/2015	0.98	A
Barclays	2,400,000	12/11/2012		0.65	A
Barclays	2,600,000	20/12/2012		0.65	A
Glasgow City Council	3,000,000	12/11/2013	12/11/2015	0.95	AAA
Cheshire West and Chester Council	2,000,000	20/01/2014	20/01/2016	1.10	AAA
Goldman Sachs International Bank	2,000,000	22/09/2014	22/01/2015	0.59	A
Norfolk & Waveney Enterprise Services Ltd	500,000	27/03/2014		1.80	A
Wyre Forest District Council	2,000,000	14/07/2014	14/07/2016	0.95	AAA
King & Shaxson - RBS	2,000,000	28/08/2014	30/08/2016	1.68	A
Newcastle City Council	2,000,000	04/08/2014	04/08/2016	1.00	AAA
Roydon Parish Council	2,667	19/02/2013	01/04/2016	1.50	AAA
BNP Parabis	2,450,000	01/09/2014		0.44	AAA
Total	**27,952,667**			**0.92**	

Appendix 2

Borrowing Portfolio as at 30 September 2014

Institution	Principal	Start Date	End Date	Rate
Suffolk County Council (LEP)	2,500,000	27/03/2014	30/11/2018	1.80%
Manchester Pension Fund	1,000,000	18/08/2014	18/02/2015	0.50%
Barclays	5,000,000	22/03/2007	21/03/2077	3.81%
Barclays	5,000,000	12/04/2007	14/04/2077	3.81%
Public Works Loan Board	1,100,000	15/09/2009	14/09/2019	2.92%
Total	**14,600,000**			**3.17%**

Appendix 3

Revised Prudential and Treasury Indicators

PRUDENTIAL INDICATOR	**2014/15 revised estimate**	**2015/16 estimate**	**2016/17 estimate**
BUDGET RELATED PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**
Capital Expenditure Approved at Cabinet 11 June 2014	17,154	4,295	5,183
Ratio of financing costs to net revenue stream (Equals net treasury cost ie cost of borrowing less the income from investments divided by the total of Government grant and total council tax). The ratios take into account the announced reduction in grant of 7.25% per year from 2011/2012 as part of the Comprehensive Spending Review.	4.19%	4.18%	3.72%
Increase/(decrease) in Borrowing required each year	1,528	712	587
Capital Financing Requirement (CFR) as at 31 March this reflects the Council's underlying need to borrow for capital purposes	£16,311	£14,722	14,309

PRUDENTIAL INDICATOR	2014/15 estimate	2015/16 estimate	2016/17 estimate
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**
Authorised Limit for external debt	30,000	25,000	25,000
Operational Boundary for external debt	25,000	20,000	20,000

These borrowing limits will have to be revised should the ‘Major Housing’ project be given approval by Cabinet in the new year.

	2014/15	2015/16	2016/17
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	**25,000**	**25,000**	**25,000**
Limits on variable interest rates based on net debt	**25,000**	**20,000**	**20,000**

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

AUDIT AND RISK COMMITTEE REPORT

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

Committee: **Resources and Performance – Audit & Risk Committee**

Date: **28th October 2014**

Subject: **External Quality Assessment – Compliance with the Public Sector Internal Audit Standards.**

Summary	**Internal Audit are required to undergo an external assessment at least every five years to ensure the service is complying with the Public Sector Internal Audit Standards. The required assessment has been completed and the resulting report is attached.**
Recommendation	**To note the report and confirm the Audit Manager's responses to the recommendations made.**

1.0 Introduction and Background

1.1 It is a requirement that Internal Audit undergo an external assessment of their work at least every five years to ensure the service is working to the Public Sector Internal Audit Standards. This is the first time the assessment has been carried out at the Council.

2.0 Process

2.1 An initial internal assessment was completed by the new Auditor, Gordon Adam, on the basis that he was a 'fresh pair of eyes', without preconceived views and had sufficient experience within audit to provide a valid perspective.

2.2 Gordon's work was then subjected to a validation process by a person appointed by the Chartered Institute of Internal Auditors. This involved reviewing the results of Gordon's work and a sample of audit files, and discussions with members of the audit team. Key personnel were interviewed including the Chief Executive, Executive Director Resources, and the Chief Financial Officer to gain a management view of Internal Audit. The Chair of the Audit and Risk Committee was also interviewed.

2.3 The findings were compared to the Public Sector Internal Audit Standards and marked as being Compliant, Non Complaint or Partially Compliant.

3.0 Results

3.1 A report has been issued (**Appendix** 1) containing agreed actions to achieve compliance with the Standards, and recommendations for further improvement to the service.

3.2 Of the 56 standards, Internal Audit was found to be compliant with 50. Recommendations were made in respect of the 6 standards that were not fully compliant and responses have been made.

3.3 With reference to Standard 2120, Risk Management, there is no obvious alternative to the Audit Manager coordinating the review and update of the Corporate Risk register. This will have to be reported in the Annual Audit Report as an area of non-compliance and the reasons explained. Ultimately the responsibility for the review and update of the register lies with Management Team.

3.3 Work has begun to implement the agreed actions. Standard 2010 relates to work at the strategic level and will be incorporated in to the Strategic Audit Plan for 2015/18.

3.4 The remaining standards relate to more operational matters and will be introduced once the necessary templates and processes have been devised and agreed.

4.0 Conclusion

4.1 The external assessment has provided assurance over the work of Internal Audit, and offered practical recommendations for the improvements required to comply with the Public Sector Internal Audit Standards.

Chartered Institute of Internal Auditors

EXTERNAL QUALITY ASSESSMENT (EQA) REPORT FOR

THE BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK

Prepared by Ross Fraser and Chris Baker on behalf of the CIIA September 2014

TABLE OF CONTENTS

EXECUTIVE SUMMARY – Borough Council of King's Lynn & West Norfolk

Introduction

The objective of this External Quality Assurance (EQA) review was to validate the internal audit function's own internal assessment, validation was achieved by reviewing the available evidence to support the findings of the internal assessment, and this also involved conducting interviews with senior management and the chair of the audit committee.

The internal assessment was undertaken by Gordon Adam who had recently joined the internal audit team. Prior to joining the Borough Council Gordon had a lengthy career within public sector internal audit including that as Head Internal Audit within a number of Government bodies. In advance of the CIIA's review Gordon had completed an Internal Assessor's Report, supported with a self-assessment check list

The internal audit service of the Borough Council of King's Lynn and West Norfolk are required to adopt the common set of Public Sector Internal Audit Standards 2013 (PSIAS). The PSIAS encompasses the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework (IPPF). Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF. The reviewers have taken account of the additional elements in this EQA assessment.

Chartered Institute of Internal Auditors

Conformance to the International Professional Practice Framework

The Institute of Internal Audit's (IIA's) International Professional Practice Framework (IPPF) includes the Definition of Internal Auditing, Code of Ethics and *International Standards*. There are 56 fundamental principles to achieve with more than 150 points of recommended practice. It is our view that the internal audit service of the Borough Council of King's Lynn and West Norfolk conforms to *50* of the 56 principles, as summarised in the table below. This is a notable achievement given the breadth of the IPPF, and the fact that this has been achieved by a small team of professionals.

Summary of CIIA Conformance	**Standards**	**Does not Conform**	**Partially Conforms**	**Generally Conforms**	**Total**
Definition of IA and Code of Ethics	Rules of conduct			5	5
Purpose	1000 - 1130			7	7
People	1200 - 1230			4	4
Performance	1300 - 1322			7	7
Planning	2000 - 2130	1	1	10	12
Process	2200 - 2600	3	1	17	21
	Total	4	2	50	56

There are Standards that require attention. The key areas that require further focus to achieve full conformance ratings are;

1 Annual Planning . (Standard 2010 – Partially conforms)

The Annual Plan is not risk based - approximately 50% of audits are compliance/systems based, and 50% are risk based audits. There is not a clear linkage to organisational objectives, priorities and risks. There is no assurance framework.

2 Risk Management. (Standard 2120 – Does not conform)

(a)The Internal Audit Charter includes within the scope that "the Audit Manager will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving the Council's objectives." Currently the Council's risk management framework cannot be relied upon to develop the audit strategy/plan nor is risk currently a focus when audits are planned.
(b) Risk Management. The Audit Manager is responsible for maintaining the Council's high level risk register, this role and responsibilities in relation to risk management require review in that internal audit is, according to the Charter, tasked with providing assurance around risk management

3. <u>The planning of audit assignments</u> (Standards 2201, 2210and 2220 – Does not conform)
   The researching, establishing audit objectives and developing the scope of audits require material improvement.
4. <u>Audit Programme</u> (Standard 2240 - Partially Conforms)
   Linked to the above is the absence of an audit programme which results from the planning phase and guides the approach to conducting the audit

Further expansion of the key points is contained within a detailed standard by standard checklist available as a separate document.

The overall assessment resulting from the EQA is that the internal audit service **"partially conforms to the IIA's professional standards"**. The Audit Manager and the internal reviewer are aware of the main issues that require action, and indicated their intention to address them. It follows that, when the recommendations set out in the table below are auctioned it should be possible to secure a status as conforming with the IIA's professional standards, this will also result in the internal audit service meeting the Public Sector Internal Audit Standards.

Recommendations to achieve conformance to the Standards

Standard 2010 Planning	**Response & action date**
To comply with the PSIAS there should be a risk-based plan which must take into account the requirement to produce an assurance framework. The risk based plan must identify how it links to organisational objectives and priorities. Currently there are elements that partially meet the standard eg consideration given to the Corporate Risk Register (which the Audit Manager is responsible for) but there are a number of flaws : • The internal audit's assessment of risk is done after the audit; • A standard set of risk criteria is used for every audit, regardless of the actual potential risks; • There was no documented linkage from the Audit Plan through to the Corporate Risks or Business Plan • Nine areas were identified to be fundamental and are carried out on an annual basis, and considered to "....present a significant risk...". Yet a number of the core areas are well established with robust controls in place eg payroll, sundry debtors, general ledger etc. It is probable that a number of these audits could be combined into one annual review to cover ' Finance & Accounting '	A new method of assessing risk as part of the preparation of the Strategic Audit Plan will be established, based on the use of a risk assurance framework at a high level to produce a Council-wide assessment of risk. A more specific assessment at individual audit level will reflect the level of risk at the start of the audit and again after the follow-up to produce a direction of travel. Using the risk assurance framework, the strategic plan will be developed and where possible the planned audits will be linked to the Corporate Business Plan. The Core/ fundamental audits need to continue on an annual basis so that external audit can reduce the amount of testing they need to carry out. However the scope and extent of the audits will be re-considered after discussion with external auditors. April 2015
Standard 2120 Risk Management The PSIAS and this Standard requires internal audit evaluate the effectiveness and contribute to the improvement of risk management processes, a responsibility that is highlighted in the Audit Charter. The Audit Manager is required to express a view upon risk management and the effectiveness of risk management, and it is recommended that within the Annual Report the Audit Manager should provide an annual opinion upon the	**Response & action date** The potential for re-assigning corporate risk management within a Council of this size is limited. There is no separate risk management function and historically responsibility has been allocated to Internal Audit as a result of this lack of options. It is also noted that a review of neighbouring Councils suggests that this is not an unusual arrangement. It is accepted that there are some conflict of interests on the part

maturity and application of risk management across the Council. The Audit Manager is also responsible for reviewing and updating the Council's high level Risk Register, and securing the agreement of senior management and the Audit & Risk Committee to the amendments. This moves the Audit Manager into a position where she has responsibility for the content of the Risk Register and for providing assurance on her work. This role and responsibility should be reviewed. The maturity of risk management within the Council was not assessed but there was no standard Council wide risk management system for internal audit to use to develop the internal audit strategy and plan. In addition the indications from interviews undertaken were that risk management is a bit fragmented across the organisation. To fully comply with this standard internal audit should also be more proactive in promoting risk management across the Council so that internal audit can place greater reliance on management's view of risk when developing the internal audit strategy. Risk assessment should be a foundation when planning audits.	of the Audit Manager in co-ordinating the updates for the Corporate Risk register and at the same time expressing an opinion on the adequacy of the process. However there are other methods of assessing risk management within the Council in order to gain assurance. An assessment of risk management processes can be built into most audits. This enables the Audit Manager to build up a Council-wide picture of risk management at an operational level. In terms of developing risk management within the Council, it is anticipated that by incorporating risk assessment into each audit, the level of risk awareness will be raised generally throughout the Council. April 2015
Standard 2201 Planning Considerations	**Response & action date**
The Standard requires that internal auditors in developing a plan for an engagement must consider objectives, scope, timing and resource allocation. Currently planning considers some of the requirements but there is a standard terms of reference to "fit all". The file review showed that the objectives and scope did not meet the circumstances of the engagement, and in some instances were not relevant to the engagement eg the audit of Refuse & recycling – the scope coverage on the terms of reference was wide but the actual work was specific to an audit of the management of the contract. The terms of reference made no mention that this was the focus of the audit.	The planning process for each audit will include an analysis of risk in the audit area. In turn this will define the scope and set the audit objectives. To assist in this process a template will be developed for use in all audits that will lead the Auditor through the process of defining the scope and identifying the objectives for the audit within that scope. Terms of Reference will then be specifically created for each audit. April 2015

Standard 2210 Engagement Objectives	Response & action date
This Standard requires that objectives must be established for each assignment. This happens by undertaking an assessment of the risks *relevant to the activity under review,* auditors are also to consider the probability of significant error, fraud, non-compliance and other exposures. Auditors must evaluate whether criteria needed to evaluate governance, risk management and controls. Objectives were established but the weakness of the process was that the objectives were not always developed from a structured analysis directly linked to the activity under review.	As above. The risk analysis will help to define the audit objectives and guide the work of the Auditor. A template document is being devised to enable the Auditor to work through from the initial risk analysis, through scoping and identifying the audit objectives and onto preparing the audit programme. April 2015
Standard 2220 Engagement Scope	**Response and action date**
The Standard requires that scope must be sufficient to satisfy the objectives of the engagement, and include consideration of relevant systems, records, personnel and physical properties. The objectives and scope were combined into one paragraph which did not differentiate between the two, a standard terms of reference had a Section headed "Objectives and Scope". Mostly the same objectives and scope being applicable to all audits. On file there was a separate document which included some elements of scope.	The scope of the audit will be defined by the results of the risk analysis and consideration of any other more cross-cutting corporate audits. For example an audit of Accounts Receivable will impact on the audit of any area that receives income. April 2015
Standard 2240 Engagement Work Programme	**Response and action date**
The Standard requires that the auditors must develop and document work programmes that achieve the engagements objectives. This will include procedures for identifying , analysing, evaluating and documenting information about the assignment. It must be approved prior to its implementation This document is developed from analysing and consolidating the results of preliminary work – the planning, the objectives and the scope. It is a road	Once the scope and objectives of an audit have been defined, an audit plan will be created, stating how the audit will be conducted. April 2015

map for the fieldwork which properly developed and used will contribute to an efficient and effective audit	

Scope for Further Development

The Chartered Institute regards conformance to the IPPF as the foundation for effective internal audit practice. However, our EQA reviews also seek feedback from key stakeholders and we benchmark each function against the diversity of professional practice seen on our EQA reviews and other interviews with chief audit executives, summarised in an Internal Audit effectiveness matrix. We then interpret our findings into scope for further development based upon the wide range of guidance published by the Chartered Institute. It is our aim to offer advice and a degree of challenge to help internal audit activities continue their journey towards best practice and excellence.

In the following pages we present this advice in three formats.

- An analysis to recognise the accomplishments of the team and to highlight potential threats and opportunities for development.
- A matrix describing the key criteria of effective internal audit, highlighting the level that the internal audit service has achieved and hence the potential for further development.
- A series of recommendations for further development which the internal audit team could use as a basis for an action plan.

We should stress, however, that, except for the six standards listed above, the internal audit function generally conforms. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a generally conforms rating.

What works well (Strengths)	What could be done better (Weaknesses)
• The senior management team and the Resources and the Audit Committee Chair highly regarded the internal audit work, and were supportive to internal audit. • Experienced audit staff with not only the CIIA qualifications but also CIPFA and AAT. • An Audit Manager committed to quality, development and continuous improvement. • An audit service that works in partnership with the Council staff, and has a good level of credibility within the Council. • Responsive to management when requested to give attention to new or emerging initiatives • Management happy with the structure , clarity and conciseness of Internal audit	• Where possible the Annual Audit Plan should link to the Council's strategic objectives and corporate risks • The need to implement reporting on the effectiveness of risk management within the Council as specified in the Charter. • There should be a more structured and analytical process to assignment planning and scoping the audit. • An output from the audit planning cycle should be an audit programme/plan which relates to the objectives and risks specific to the audit topic. • Too much emphasis on "core" audits which tend to be annual checking exercises covering a limited scope and often the same ground,

reports • General conformance to the IIA's professional practice framework.	generally these audits result in minor findings and full assurance. • The scope within the current Terms of Reference routinely includes "To review the economy, efficiency and effectiveness of processes, procedures and operations" .This would suggest that value for money/ performance is being covered but within the files reviewed there was no such coverage. • The files reviewed included too many hard copies of working papers, such as information documents. There is scope to make greater use of electronic files and reduce papers held to a minimum, and retain documents that provide evidence to support audit findings and recommendations.
What could deliver further value (Opportunities)	**What could stand in your way (Threats)**
• Internal audit being proactive in supporting the development and delivery of risk management across the Council • Giving more emphasis to risks when planning audits. • The development of an Assurance Framework setting out the "audit universe" will facilitate the development of the audit strategy. • The Assurance Framework will also help develop an approach to cross cutting audits which will consider a topic across the organisation, rather than a "silo" basis • In developing the next Annual Plan explore with management opportunities for Value for Money/ Performance Auditing. One definition is that value for money auditing is an independent and objective examination of undertakings, systems, programmes , with regard to one or more of the three aspects of economy, efficiency and effectiveness, aiming to lead to improvements. The added value of such audits can be significant but selecting a vfm area requires significant research, and staff undertaking such review benefit from appropriate training.	• Within a small audit team the unplanned for loss of a member of the team could adversely impact both delivery of the audit plan, and the quality of the work • IT and data security are increasingly important. Whilst the IA function does not justify a full time IT auditor. The absence of timely input of IT skills and knowledge when required on an assignment is a potential issue that could adversely impact the quality of an audit. • Financial pressure on resources could lead to a consideration of other options for provision of the internal audit service ie outsourcing, or consortium • Failing to fully develop links to the wider IA community could result in best practice not being developed and lower awareness of changes in the profession.

Chartered Institute of Internal Auditors

Internal Audit Effectiveness Matrix: King's Lynn and West Norfolk Borough Council - Internal Audit Team's Effectiveness highlighted

Assessment	CIIA standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
Excellent	Outstanding reflection of the CIIA standards, in terms of logic, flow and spirit. Generally conforms in all areas.	IA alignment to the organisation's objectives, risks and change. IA has a high profile, is listened to and is respected for its assessment, advice and insight.	IA is fully independent and is recognised by all as a 3rd line of defence. The work of assurance providers is coordinated with IA reviewing reliability of.	Assignments are project managed to time and budget using tools/techniques for delivery. IA reports are clear, concise and produced promptly.	Ongoing efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with and approved by AC.
Good	**The CIIA Standards are fully integrated into the methodology – mainly generally conforms.**	Clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value added dimension.	Coordination is planned at a high level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagement are controlled and reviewed while in progress. Reporting is refined regularly linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with AC
Satisfactory	Most of the CIIA Standards are found in the methodology with scope to increase conformance from partially to generally conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change but criteria and role require clarity.	**The 3 lines of defence is model is regarded as important. Planning of coordination is active and IA has developed better working relationships with some review of reliability.**	**Methodology recognises the need to manage engagement efficiency and timeliness but further consistency is needed. Reports are informative and valued.**	**Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is evident. Wider QA&IP may need formalising**
Needs improvement	Gaps in the methodology with a combination of non-conformances and partial conformances to the CIIA Standards.	**Some connections to the organisation's objectives and risks but IA engagements are mainly cyclical and prone to change at management request.**	**The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.**	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagement go beyond deadline and a number are deferred	QC not consistently embedded across the function. QA is limited / late or does not address root causes
Poor	No reference to the CIIA Standards with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks and performance. Many audits are adhoc.	IA performs its role in an isolated way. There is a feeling of audit overload with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

Recommendations for Further Development

We offer a range of ideas and recommendations to improve the effectiveness and efficiency of internal audit. They are not presented in order of importance .

Performance Targets	Response & action date
As a small internal audit unit it would not be practical to introduce a full range of performance targets. At the moment there are three targets – delivery of audit plan, a satisfaction questionnaire, and planned v actual audit time. You may wish to consider introducing one more to provide an overview around the implementation / non-implementation of internal audit recommendations.	The implementation of audit recommendations could certainly be picked up from the follow-up reports. It will be considered for inclusion in the next Internal Audit Strategy for 2015/16. April 2015.
Risk Management	**Response & action date**
An option for strengthening risk management across the Council is for internal audit to facilitate Control & Risk Self Assessment workshops. CRSA is a practical process which enables each work group to clearly define its objectives, the controls in place, and the risks it faces, and subsequently to take action to improve performance and reduce the level of risk.	Previous experience of the Audit Manager of implementing CRSA suggests that it can be a time-consuming process for service managers. At a time when staff throughout the Council are already under severe time pressures, the Audit Manager considers that it would not be effective to try and implement CRSA. Instead a more incremental approach will be taken by raising risk awareness as part of each audit and aiming to persuade service managers of the merit of incorporating it onto their normal work processes.
Reporting	**Response & action date**
The stakeholders interviewed were happy with the internal report format and structure. However, there are two further improvements you may wish to consider (a) within the executive summary a short assurance statement be included for each audit objective, and (b) positive assurance statements be	The format of the report is being reviewed. Initial thoughts are that the audit objectives could be used as a basis for reporting conclusions on the adequacy, or otherwise, of the audit area. This would present the stakeholders with a view on what aspects the audit covered and the

included where there are no significant findings and/or no recommendations.	assurance gained, as well as any recommendations made. End October 2014
Audit Committee	**Response & action date**
The membership of this Audit Committee is very large, seventeen representing all political shades of the Council. Although the scope of the review did not cover the Audit Committee it is very unusual to have such a large number of committee members, under 10 would be more normal. Although within Council this issue was known, the stakeholders interviewed all took the view that a change was not possible. The issue is flagged up as an area that may be actionable in the longer term	The decision on the size and make-up of the Audit Committee is a political one and not within the remit of the Internal Audit service. No change is anticipated at the present time.
Working Papers	**Response & action date**

CIIA Grading definitions

The following rating scale has been used in this report.

Overall Audit Grading	
Generally Conforms (GC)	The assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.
Partially Conforms (PC)	The assessor has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.
Does Not Conform (DNC)	The assessor has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.

Often, the most difficult evaluation is the distinction between general and partial. It is a judgement call keeping in mind the definition of general conformance above. The assessor must determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a “generally conforms” rating.

List of Interviewees

Name	**Position** within King's Lynn & West Norfolk Borough Council
Ray Harding	Chief Executive
Dave Thomason	Deputy Chief Executive and Executive Director
Lorraine Gore	Chief Financial Officer and s151 Officer
Cllr Paul Beal	Chair of the Audit and Risk Committee
Kate Littlewood	Audit Manager (Chief Audit Executive)
Karen Butler	Internal auditor
Gordon Adam	Internal auditor

Note: The time and assistance given by each of the above to Ross Fraser during the review proved extremely useful and is appreciated.

AUDIT AND RISK COMMITTEE WORK PROGRAMME 2014/2015

29 April 2014

- 5.30 pm: 1st Item - Fraud – (training/briefing session – all Members invited to attend):
- Single Fraud Investigation Service Update
- Cabinet Report: Anti-Fraud and Anti-Corruption Strategy, Whistleblowing Policy and Fraud Response Plan

27 May 2014

- Q4 Progress Report.
- Fraud report – BEU and NFI
- Corporate Risk Monitoring Report (October 2013 to March 2014)

9 June 2014

- Final Accounts and Statement of Accounts for year ended 31 March 2013: Revenue Outturn, Capital Programme and Resources.
- Annual Governance Statement – V Dunmall
- Monitoring Officer Report 2013/2014 – E Duncan

24 June 2014

Cabinet Reports:

- Benefits and Revenues Fraud Policy – Introduction of Civil Penalties for Council Tax.
- Annual Treasury Report 2013/2014.

22 July 2014

- Q1 Progress Report
- Annual Report
- Business Continuity – V Dunmall, K Kent

- Cabinet Report: Review of the Effectiveness of the Audit and Risk Committee

9 September 2014

- Statement of Accounts 2012/2013
- Annual Governance Statement.
- Monitoring Officer Annual Report – E Duncan

28 October 2014

- External Quality Assessment – Compliance with Public Sector Internal Audit Standards

Cabinet Report

- Mid Year Review Treasury Report 2014/2015

25 November 2014

- Q2 Progress Report
- Fraud Report – BEU and NFI
- External Annual Audit Letter – to be presented by the Council's External Auditor
- Mid-Year Treasury Report

24 February 2015

- Q3 Progress Report
- Strategic Audit Plan

24 March 2015

Forthcoming Items

Business Continuity/Emergency Planning Training (45 mins) – 1st item – training session – open to all Members) – date to be determined.
(July 2015) Business Continuity Annual Update – V Dunmall, K Kent